The Executive Summary

of Fiscal Year 1997 Financial Activity

ILLINOIS

State of Illinois
COMPTROLLER
Loleta Didrickson

From the Office of the Comptroller

To properly assess Illinois' fiscal health, the Office of the Comptroller prepares a Comprehensive Annual Financial Report (CAFR). The CAFR presents the state's financial position and results of operations in accordance with generally accepted accounting principles (GAAP). This Executive Summary highlights certain information derived from the CAFR and, in addition, presents information on the traditional budgetary (cash) basis.

By matching revenues and expenditures (including obligations deferred to subsequent years under state law) to the years in which they occurred, GAAP reporting presents a consistent measure of the state's financial condition. Since the day-to-day operations of state government are conducted on a cash basis, however, the traditional budgetary report counts revenues when they are deposited into the treasury and expenditures when they are paid from appropriations enacted by the General Assembly. Both views are presented in order to offer a more comprehensive view of Illinois' financial health.

This year's Executive Summary also includes a copy of the Award for Outstanding Achievement in Popular Annual Financial Reporting presented to the State of Illinois by the Government Finance Officers Association for our Executive Summary published last year.

Another year of strong economic growth allowed for continuing improvement in the state's financial health during fiscal year 1997. For the fourth consecutive year the state's General Fund GAAP balance improved, rising from a $951 million deficit in 1996 to a $451 million deficit in 1997. This $500 million or 53% improvement was also due in part to a third consecutive year of decline in Medicaid liabilities carried over from the prior year. Fiscal year 1997 also marked the fifth straight year of improvement in the state's budgetary balance (measured on a cash basis) as the balance rose from a $292 million *deficit* in 1996 to a $45 million *surplus* in 1997 — the first positive budgetary balance since fiscal year 1989.

The state's daily cash availability also improved and payment delays were eliminated entirely by the end of April, 1997. Another indication of improving fiscal health is the fact that the state did not engage in short-term cash flow borrowing for the first time since fiscal year 1992.

I have consistently expressed my belief that accountability that only reports how much government spent, and what that spending bought, is insufficient. Citizens are also entitled to know more about the results of the expenditure of our tax dollars. The missing piece of accountability has been an accounting for the services provided, the public purpose served, how well, and at what cost. This year, the Comptroller's Office has taken another step toward improved accountability.

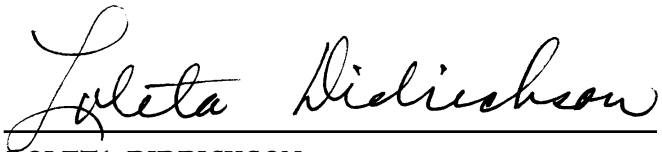
For the first time in Illinois, and for the first time for any state or local government issuer of a CAFR, the report includes experimental measurement information about the results, accomplishments, and performance of Illinois state government. The Executive Summary includes an abbreviated version of that experiment.

This experiment was undertaken in conjunction with the Governmental Accounting Standards Board (GASB), the authoritative body that prescribes the rules and methods of GAAP that must be followed in all governmental CAFR's. One of the GASB subobjectives of CAFR reporting is "to provide information to assist users in assessing the service efforts, costs, and accomplishments of the governmental entity". To further this objective, GASB has encouraged state and local CAFR issuers to experiment with including service, efforts, and accomplishments information (SEA) in their CAFR.

This year's Illinois CAFR has been designated a GASB SEA experimentation effort for the purpose of the national discussion regarding government performance accountability. The SEA presentation in the CAFR includes a summary of the history of efforts to measure and use government performance information, descriptions of some of the problems and issues associated with compiling SEA information, and a variety of illustrations and examples of SEA-type measures gathered from state agencies.

I wish to extend my appreciation to the various Illinois agencies, offices, and boards who assisted us in this pilot effort in government accountability. We all hope this effort in Illinois will contribute to the national dialogue on government SEA-Performance accountability, and more parochially, also begin to tell Illinoisians something about the results of the expenditure of their tax dollars.

Sincerely



Date: January, 1998

LOLETA DIDRICKSON
Comptroller

Award for Outstanding Achievement in Popular Annual Financial Reporting

PRESENTED TO

STATE OF ILLINOIS

For the fiscal year ending June 30, 1996

Linda K. Savitsky
President

Jeffrey L. Esser
Executive Director

TABLE OF CONTENTS

GAAP Basis

Traditional Budgetary Basis

TABLE OF CONTENTS

Printed by Authority State of Illinois 1/98 - 3,200 Job No. 31800

FISCAL OVERVIEW

For the fourth consecutive year the state's General Fund GAAP balance improved, rising from a $951 million deficit in 1996 to a $451 million deficit in 1997. This $500 million improvement is nearly double last year's increase. Fiscal year 1997 also marked the fifth straight year of improvement in the state's General Funds budgetary balance (measured on a cash basis) as the balance rose from a $292 million *deficit* in fiscal year 1996 to a $45 million *surplus* in 1997—the first positive budgetary balance since 1989.

The state's daily cash availability also improved. Building on the progress of the prior four years, overdue payables from the General Funds were reduced steadily throughout the year. Although payment delays still occurred, those delays were shorter than during the previous five years and were eliminated entirely by the end of April, 1997. Another indication of improving fiscal health is the fact that the state did not engage in short-term cash flow borrowing for the first time since fiscal year 1992.

The GAAP and cash basis improvements were made possible by two factors. First, due to the continued strength of the economy, Illinois' General Funds saw an increase of $918 million or 5.1% in "base" revenue (total revenue excluding short-term borrowing) in fiscal year 1997 - the fourth largest dollar increase on record. Second, the state was able to significantly reduce the level of unpaid Medicaid bills carried over from the prior year. This marks the third year in a row that such liabilities were reduced.

Between 1995 and 1996, Section 25 General Fund liabilities payable out of future year appropriations declined by $648 million. There was a $734 million *decrease* in Section 25 liabilities under the state's Medicaid program. The state's group health insurance program for employees, retirees, and their dependents administered by the Department of Central Management Services *increased* $86 million between fiscal years 1995 and 1996.

In 1997, Section 25 deferrals dropped by $287 million. Deferrals for group health insurance decreased $58 million, while Medicaid deferrals fell by $229 million. This is a $1.41 billion reduction in the Medicaid deficit in the last three fiscal years and reflects the cumulative impact of increased resources and program cuts.

While there have been improvements across a broad spectrum, the fact that Illinois still has a GAAP deficit suggests that there is room for further improvement. In order to continue to improve its fiscal health, the State faces several challenges. To maintain balances at more acceptable levels and keep payment cycles under control, resources must continue to be directed to these purposes. This will not be easy. The ability to allocate resources will be constrained on one hand by revenue growth and on the other by the competing budgetary needs of programs such as education and those administered by the Departments of Human Services, Corrections, Children and Family Services and Public Aid.

Although Section 25 deferred liabilities appear to be largely under control, continued efforts will be required to keep deferrals from again becoming a budgetary black hole. This is especially applicable to the Medicaid program.

The size, scope and demographics of Medicaid are not static but are driven by several dynamic factors. Advances in medicine have resulted in new and beneficial, but often extremely costly treatments. The aging of the population in general, and in Illinois in particular, means that one of the fastest growing and most expensive to treat segments of the population will exert even stronger influence on the demand for health care services. In addition, fundamental

changes in the Medicaid program at the federal level will have a profound effect on the state's budget. All of these pressures and more will also result in significant changes in the way health care services are both paid for and delivered.

Future budgets will also have to address longer-term issues, particularly funding for the state's pension systems and for elementary and secondary education. In the past, adequate pension funding was deferred to future years in order to make room in the annual budgets for other more immediate program needs. With the enactment of P.A. 88-593, Illinois began to seriously address its public pension funding problems in fiscal year 1996.

Unlike past funding legislation which was largely ignored in the budget process, one of the key provisions of the new law provides for continuing appropriation authority to make sure that required pension contributions are made each year. In fiscal year 1997, the second year of the new funding legislation, state employer contributions totaled $752 million and met the statutory funding requirement. By fiscal year 2001, those contributions are expected to grow 75.6% to $1.3 billion.

Meeting in special session on December 2, 1997, the General Assembly passed extensive reform measures that will affect every aspect of Illinois' public education system, including educational programs, teacher certification, and major funding issues.

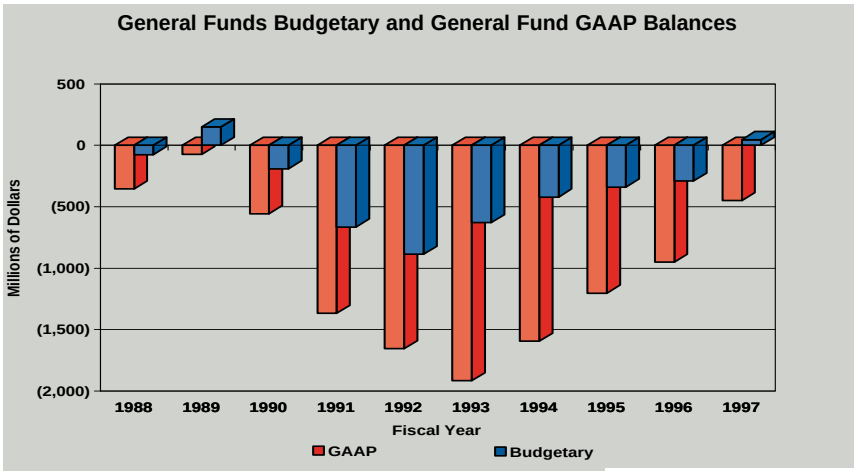
Legislation was approved establishing a specific foundation level of per pupil funding considered to be necessary for students to receive an "adequate" elementary and secondary education. Supplemental appropriations for the current year (1998) will bring districts up to a foundation level of $4,100 per student. The level will increase to $4,225 in 1999, $4,325 in 2000 and, finally, $4,425 in 2001. In subsequent years, the General Assembly will determine the appropriate foundation level with advice from a newly created Funding Advisory Board.

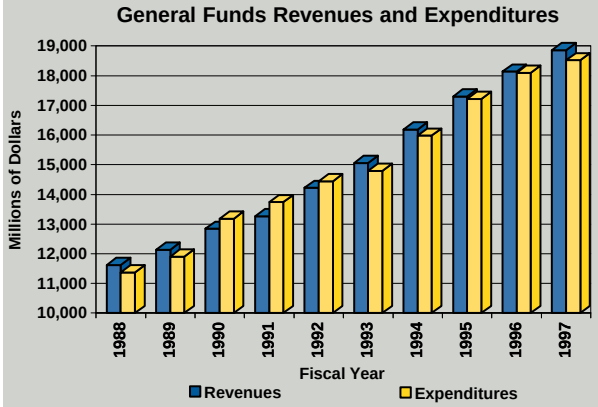
A key element of the new plan was enactment of continuing appropriation authority to ensure that required payments to schools are made each year. The funding increases guaranteed under this plan are expected to be financed by growth in the state's base revenue and from several revenue measures enacted at the same time. These include higher taxes on cigarettes, telecommunications, and riverboats, as well as higher penalties for late filing or failure to file tax returns.

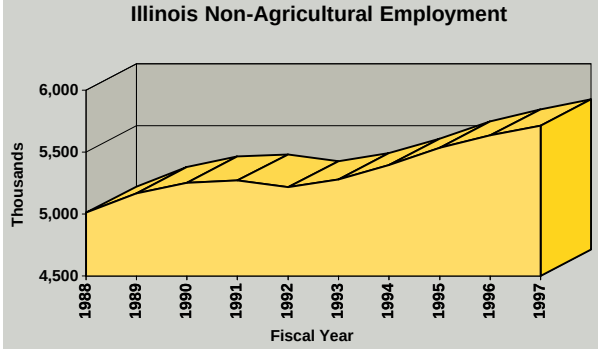
While school funding is guaranteed under this four year plan, the revenue necessary to finance the higher level of spending is not. In the event that base revenue growth and the higher taxes do not raise enough revenue, spending reductions in other areas may be necessary.

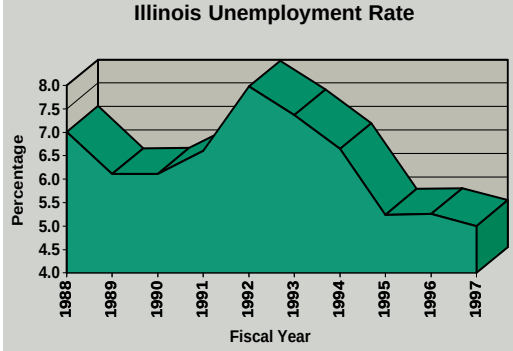
YEAR - END FISCAL SUMMARY

LOLETA DIDRICKSON
OFFICE OF THE COMPTROLLER









FY 1997 Highlights

A $918 million increase in base General Funds revenue.

The GAAP deficit improves by $500 million.

A positive budgetary balance for the first time since fiscal year 1989.

An average of 5.713 million jobs in fiscal year 1997, setting a record for the fifth consecutive year.

Receivables

(in millions)	6/30/96	6/30/97	Change
Gross Balance	$5,792	$7,379	$1,587
Uncollectibles	$2,643	$2,560	$ (83)

Section 25 Liabilities

(in millions)

6/30/96	6/30/97	Change
$888	$601	$(287)

G.O. Bond Rating

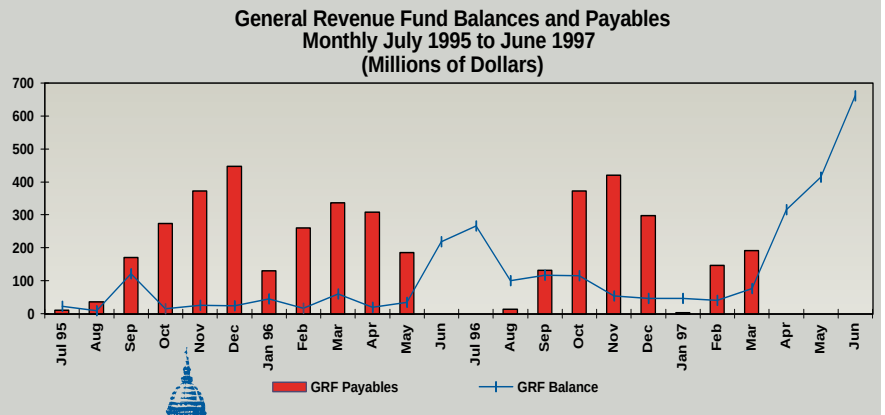
Moody's	Aa3
S&P	AA

Major Unfunded and Long Term Liabilities

(in millions)	FY 1996	FY 1997
Net Pension Obligation	N/A	$10,557
General Obligation Bonds	$ 5,657	$ 5,654
Build Illinois and Civic Center Bonds	$ 1,881	$ 1,885

General Funds Fiscal Activity

(in millions)	FY 1996	FY 1997	Change
Beginning Balance	$ 331	$ 426	$ 95
Revenue	$18,136	$18,854	$718
Expenditure	$18,041	$18,474	$433
Ending Balance	$ 426	$ 806	$380
Lapse Period Warrants	$ 718	$ 761	$ 43
Budgetary Balance	$ (292)	$ 45	$337



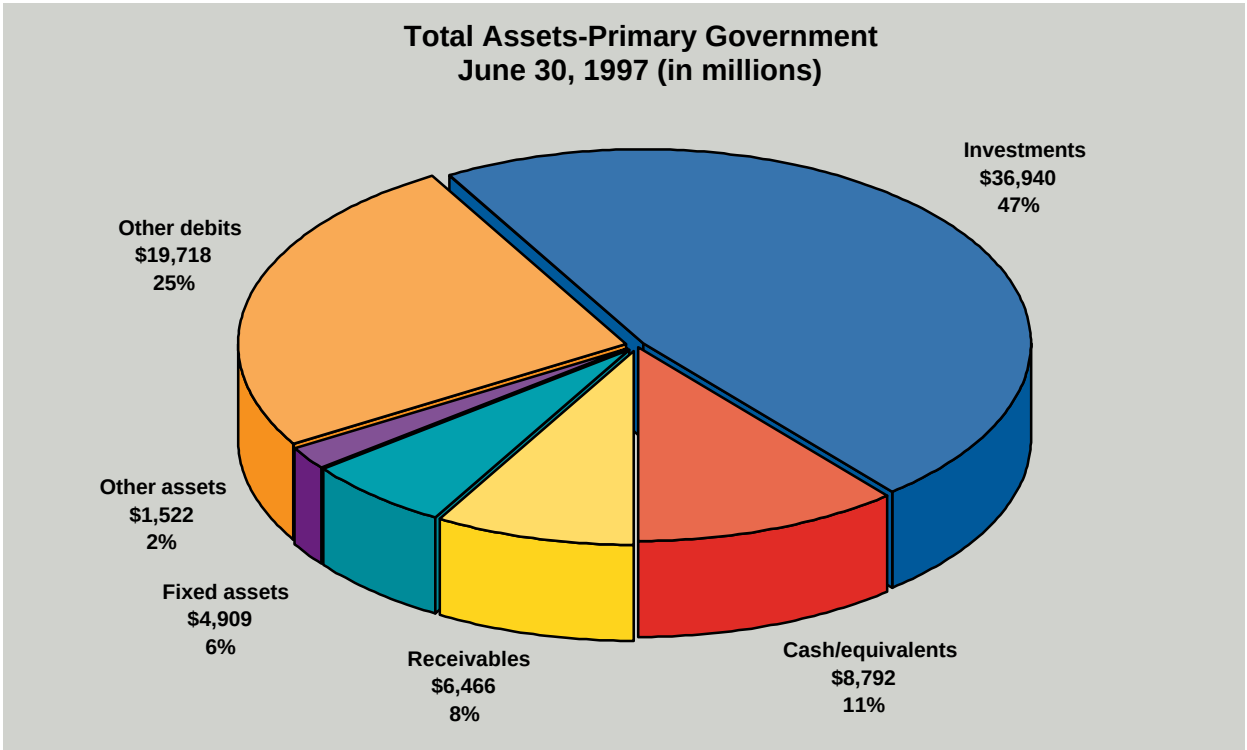
Assets (and Other Debits)

Total assets (and other debits) of the State of Illinois at June 30, 1997 were over $78 billion. This was an increase of $10.3 billion (15.1%) over fiscal year 1996. The largest increase was in the state's investments ($8.9 billion increase in state's pension funds) for an accounting principle change requiring reporting those assets at "fair value." Cash/cash equivalents increased $1.3 billion reflecting higher cash balances at June 30 in the state treasury and at the pension systems ($414 million increase).

Comparison of Total Assets (in millions)*

Account	FY 1997	FY 97%	% change from 1996	FY 1996
Investments	$36,940	47.1%	31.5%	$28,083
Cash & cash equivalents	8,792	11.2%	17.5%	7,485
Receivables	6,466	8.3%	5.1%	6,154
Fixed assets	4,909	6.3%	5.5%	4,654
Other assets	1,522	1.9%	0.7%	1,511
Other debits	19,718	25.2%	(2.4%)	20,204
Total Assets	$78,347	100.0%	15.1%	$68,091

* The above numbers include primary government funds only.



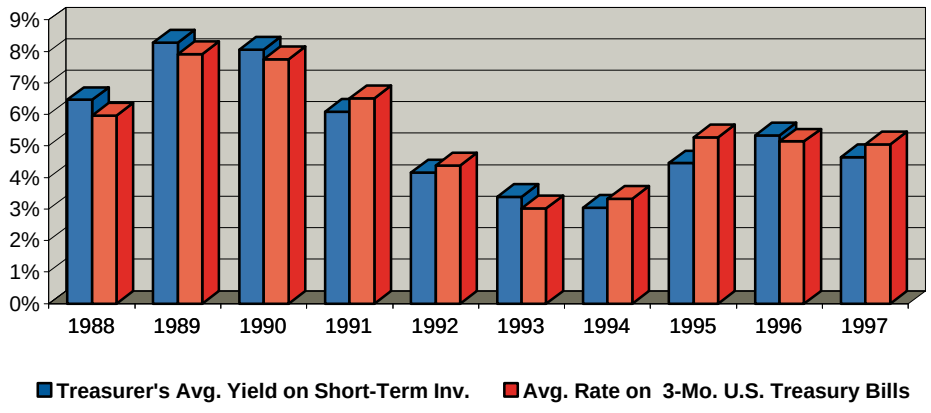
❑ *Investments*

State agencies had $9.7 billion more invested at June 30, 1997 than at June 30, 1996. Interest and investment income increased $2.5 billion. This increase can be attributed in large part to the state's pension systems. The implementation of GASB Statement 27 requires the net appreciation (or depreciation) of investments to be recorded as income (or expense).

The state's pension systems, certain debt service funds, enterprise, agency, universities' and colleges' endowments and other locally-held funds have the authority to invest their funds independently, subject to state law. Of the five retirement systems, three pool their resources for investment and two invest their resources under investment master trustee arrangements with individual investment managers.

The Illinois State Treasurer is responsible for investing all other cash resources of the state. Interest income earned on the cash resources received and invested by the State Treasurer is allocated to the various funds (where specified by law) based on the average daily cash balances invested (i.e., "pooled"). The state's investment performance on this pool from fiscal year 1988 through fiscal year 1997 is measured by comparing the average yield on short-term investments to the average interest rate on 3-month U.S treasury bills.

Treasurer's Short-Term Yield Comparison



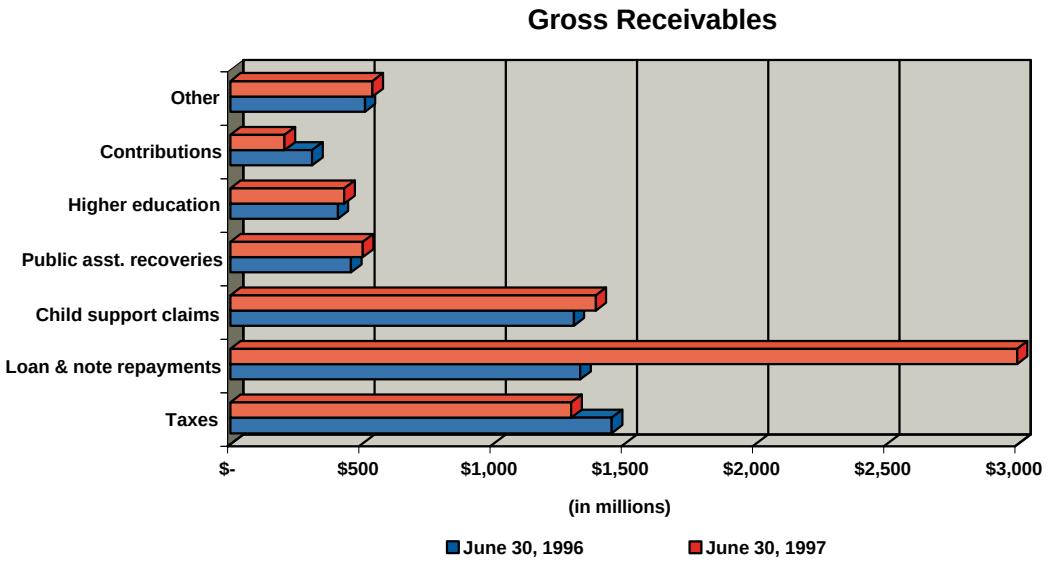
❑ *Receivables*

Receivables represent amounts owed to the state by an individual or entity. Receivables are normally recognized when goods are delivered or services are performed, or when the state's claim for cash is reasonably estimable. An allowance for uncollectible accounts based on the state's best estimate or on past experience should also be established where appropriate.

The gross receivable balance at June 30, 1997 was $7.4 billion. This is an increase of $1.6 billion (27%) from June 30, 1996. The allowance for estimated uncollectible accounts decreased by $83 million (3%) from June 30, 1996 to June 30, 1997. Thus, of the $7.4 billion of gross receivables, $2.6 billion (35%) is estimated to be uncollectible.

Estimated uncollectibles, as a percentage of gross receivables, has decreased significantly since June 30, 1995. The fiscal year 1995 estimated uncollectibles was 46% of gross receivables. This improvement is attributable to (1) implementing new initiatives in the collection process emphasizing certain business practices found in the private sector and (2) agencies prioritizing their collection efforts.

The table below lists gross receivables and estimated uncollectibles by revenue source. This information is compiled from the quarterly receivable reports submitted to the Comptroller's Office by state agencies. The amounts reported are on a statutory basis and thus, will not agree to the "GAAP basis" receivable amount reported in the 1997 Comprehensive Annual Financial Report.



Receivables
As of June 30,
(in millions)

	Gross				Estimated Uncollectibles			
Revenue Source	**1997**	**1996**	**Inc(Dec)**	**% Change**	**1997**	**1996**	**Inc(Dec)**	**% Change**
Taxes								
Income tax	$ 578	$ 503	$ 75	15%	$ 431	$ 371	$ 60	16%
Sales tax	411	439	(28)	(6%)	318	373	(55)	(15%)
Unemployment taxes	164	208	(44)	(21%)	120	161	(41)	(25%)
Motor fuel taxes	77	75	2	3%	63	63	--	--
Other state taxes	69	229	(160)	(70%)	43	201	(158)	(79%)
Loan & note repayments	2,998	1,334	1,664	125%	50	27	23	85%
Child support claims	1,393	1,309	84	6%	717	703	14	2%
Public assistance recoveries	505	460	45	10%	461	418	43	10%
Higher education	435	410	25	6%	184	166	18	11%
Contributions	207	312	(105)	(34%)	--	--	--	--
Other	542	513	29	6%	173	160	13	8%
Total	$7,379	$5,792	$1,587	27%	$2,560	$2,643	$(83)	(3%)

Taxes

Tax collections is the largest revenue source totaling $18.7 and $17.8 billion in fiscal year 1997 and 1996, respectively. Taxes receivable totaled $1.3 billion and $1.5 billion at June 30, 1997 and 1996, respectively. These receivables primarily consist of income and sales taxes reported by the Department of Revenue totaling $578 million and $411 million and $503 million and $439 million at June 30, 1997 and 1996, respectively. Also included as a major tax receivable is $164 million of unemployment taxes to be collected by the Department of Employment Security.

Although the tax revenues increased $934 million, the amount of taxes receivable decreased

$155 million (11%) since June 30, 1996 reflecting improvements in collecting on a more current basis. The most significant decrease was other state taxes. Gross receivables decreased $160 million (70%) and the allowance for uncollectible accounts decreased $158 million (79%). The majority of these decreases are due to the write off of cannabis tax receivables by the Department of Revenue. A Supreme Court opinion precluded the Department of Revenue from acting on assessments issued under the Cannabis and Controlled Substances Tax Act. Thus, the outstanding receivable amount was written off during fiscal year 1997.

Loan and Note Repayments

At $3.0 billion, loan and note repayment were the largest outstanding receivables at June 30, 1997. Of this amount, $2.8 billion were long term amounts (i.e., not scheduled for collection until after June, 1998) and $50 million was estimated to be uncollectible.

The amount of loan and note repayments increased $1.7 billion (125%) during fiscal year 1997. This increase is mostly attributable to $1.5 billion of loans issued in prior years by the Illinois Housing Development Authority, but not reported to the Comptroller's Office on their quarterly receivable reports until fiscal year 1997. The remaining increase is attributable to fiscal year 1997 loans issued by the Illinois Housing Development Authority, the Illinois Student Assistance Commission and the Environmental Protection Agency to provide funding for various initiatives including subsidized housing, student loans and water treatment plants, respectively.

Child Support Claims

At June 30, 1997, child support claims totaled $1.4 billion. This is an increase of $84 million (6%) since June 30, 1996. Estimated uncollectibles increased $14 million (2%). The receivables balance will continue to increase as the number of client accounts increases.

Of the $1.4 billion of gross receivables, $648 million (47%) were accounts the state collects in a trustee capacity. The noncustodial parent sends the court ordered child support fees to the Illinois Department of Public Aid which is then responsible to forward any collection to the care-giving parent or guardian. The state is not allowed to write off these accounts established in a trustee capacity. Thus, the outstanding receivable amount continues to increase each year and the collectibility is difficult to assess on these claims.

The remaining $745 million (53%) of child support claims represents resources to either help enforce child support collection programs or return monies to the state and federal government. Of the $745 million gross receivables, $717 million (96%) is estimated to be uncollectible.

Contributions

Contributions decreased $105 million (34%) since June 30, 1996. This decrease was due largely to the collection of early retirement incentive accounts by the Teachers' Retirement System (TRS). In January, 1993 an early retirement incentive (ERI) was offered to Illinois teachers. The retirement windows were June 1 through September 1 in 1993 and 1994. Retirements could be delayed until 1995 if more than 30% of those eligible retired in 1994. Nearly 12,000 members retired as a part of this program. The ERI allowed eligible TRS mem-

bers to purchase up to five years of service credit.

Employer contributions can be paid over five years and employees had up to two years after they elected to retire to pay their portion. Thus, the TRS receivable balance will continue to decline as the employer and employee contributions are paid.

Other Debits

One component of other debits, "Amounts to be provided" decreased during the past year by $500 million (2%) but increased during the past five years from $14 billion to $19.7 billion, or 41%. The $19.7 billion will be paid from future collections of taxes and other general revenues.

Other debits consist of 1) "Amounts available" or set aside to pay off debt and 2) "Amounts to be provided" or amounts which have not currently been set aside to pay long-term debt of the state. It is important to consider these "Amounts to be provided" since they will be required to be budgeted at some future date to pay the states' general long-term debt such as pensions, bonds and compensated absences.

LIABILITIES

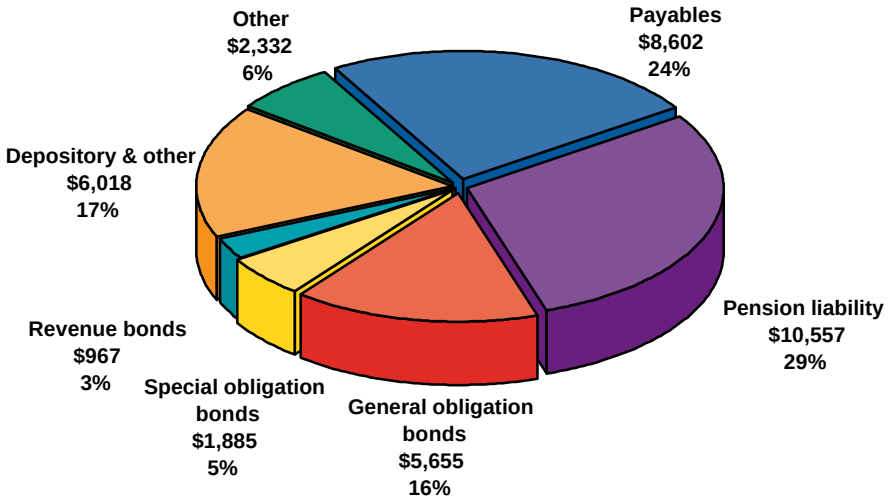
Total liabilities increased to $36 billion at June 30, 1997, $417 million (1.2%) greater than fiscal year 1996. Depository and other liabilities increased $542 million (primarily deferred compensation, child support, and "securities lending" at the Universities Retirement System) and the state's pension liability decreased $469 million which reflects the implementation of the new pension accounting standards for fiscal year 1997. The state's payables increased $198 million although "governmental fund" payables (including Medicaid) made up approximately $18 million (or less than .5%) of this increase.

Comparison of Total Liabilities (in millions)*

Account	FY 1997	FY 97%	% change from 1996	FY 1996
Payables	$ 8,602	23.9%	2.4%	$ 8,404
Pension liability	10,557	29.3%	(4.3%)	11,026
General obligation bonds	5,655	15.7%	--	5,657
Special obligation bonds	1,885	5.2%	0.2%	1,881
Revenue bonds	967	2.7%	10.6%	874
Depository & other	6,018	16.7%	9.9%	5,476
Other	2,332	6.5%	2.3%	2,281
Total Liabilities	$36,016	100.0%	1.2%	$35,599

* The above numbers include primary government funds only.

Total Liabilities-Primary Government
June 30, 1997 (in millions)



❑ *Payables*

Payables represent cost incurred at year end that have not been paid in cash. The state's payables increased by $198 million (2%) at June 30, 1997 from the fiscal year ended June 30, 1996. The increase was primarily attributable to a $117 million increase in outstanding sales tax refunds.

❑ *Pension Liability*

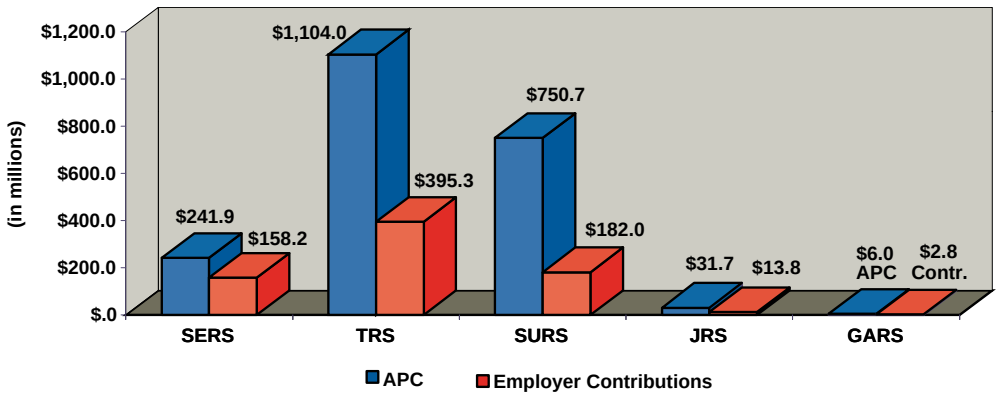
The liability at June 30, 1997 for the state's five pension trust funds was over $10.5 billion, a decrease of $469 million (4%). This reduction was the result of the pension liability being restated to reflect the requirements of GASB Statement 27, *Accounting for Pensions by State and Local Governmental Employers*. The statement requires, among other things, that assets be valued at "fair value". The beginning fund balance reserved for employees' pension benefits in the pension trust funds was restated, increasing by $4.0 billion to reflect fair value in accordance with this revised principle.

❑ *General and Special Obligation Debt*

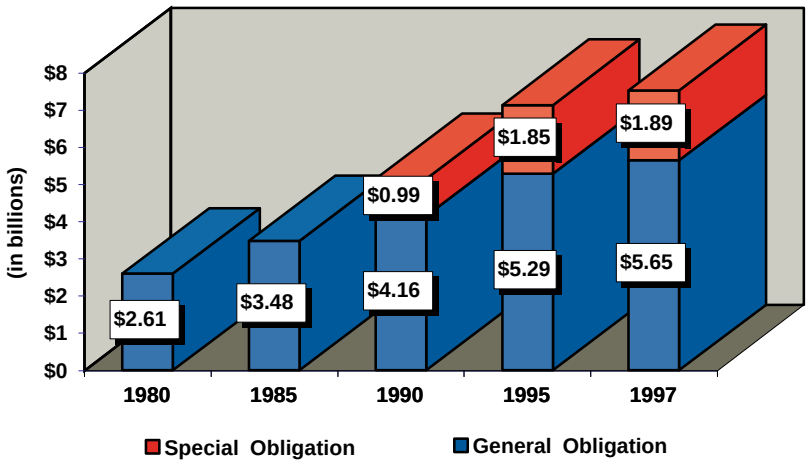
Illinois is a moderate debt state with outstanding general and special obligation bonds at both June 30, 1997 and 1996 totaling $7.5 billion.

General and special obligation bonds aggregating $435 million and $60 million, respectively, were issued during fiscal year 1997 at average interest rates ranging from 5.1% to 5.7%. During fiscal year 1996, general and special obligation bonds totaling $975 million and $80 million, respectively, were issued at the same range of rates. Debt service principal and interest costs of $479.8 million and $359.7 million, respectively were paid in fiscal year 1997. Although there has been a dramatic increase since fiscal year

Fiscal Year 1997 Annual Pension Cost ("APC")



General and Special Obligation Debt

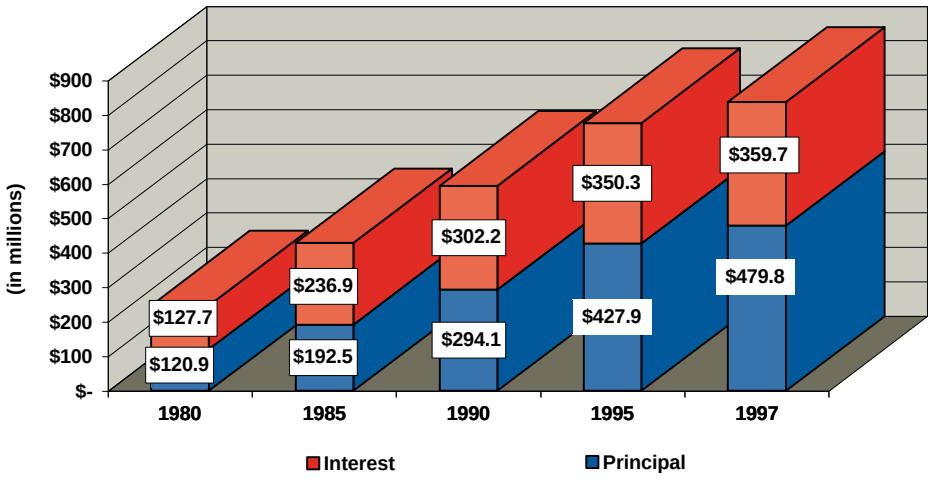


1980 (as displayed below), the years since fiscal year 1995 have seen only a small growth (or $400 million). Bonds have been issued primarily to provide funds for acquisition and construction of capital facilities for higher education, public and mental health, correction and conservation purposes, and for maintenance and construction of highway and waterway facilities.

Bonds also have been issued to provide assistance to municipalities for construction of sewage treatment facilities, port districts, aquarium facilities, local schools, mass transportation and aviation purposes, and to fund research and development of coal and alternative energy sources.

On February 10, 1997, Moody's Investor Service upgraded Illinois' general obligation bond rating from A1 to Aa3. Standard & Poor's Corporation (S & P) also upgraded the state's bond rating on July 17, 1997 from AA- to AA. These improved ratings reflect Illinois' solid and diverse economy and improved financial condition. S & P noted that the state eliminated a $1 billion backlog of unpaid Medicaid bills, reduced lapse period spending, and achieved a closer match between spending and revenue growth.

Debt Service FY1980-97



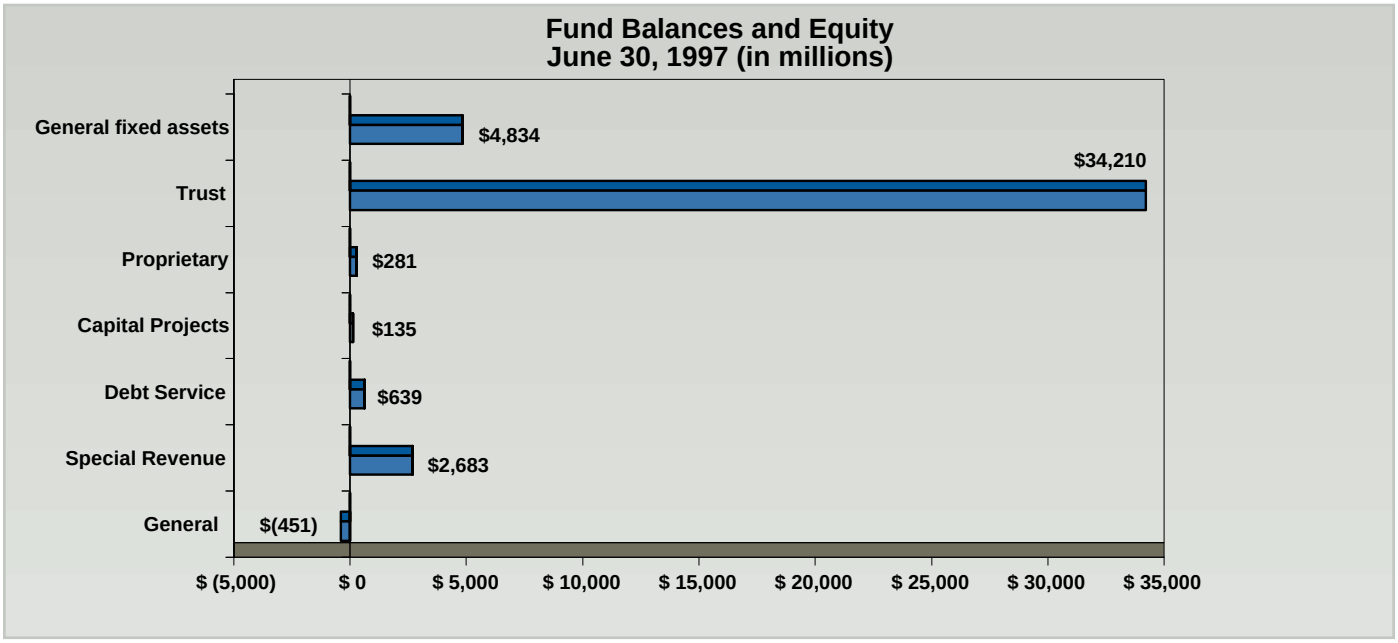
Fund Balances and Retained Earnings

The fund balances for all primary government funds combined was $42.3 billion at June 30, 1997 representing a 30% increase from fiscal year 1996. The primary increases were in the trust funds' assets which were held in trust for a particular purpose and not available for general governmental purposes. Specifically, the pension trust funds balance improved $8.6 billion reflecting "fair value" of assets and implementation of the new GASB pension standards. Other improvements were in the Special Revenue Funds ($337 million) and general fixed assets account group ($246 million).

Comparison of Total Fund Balances (Deficits) and Retained Earnings (in millions)*

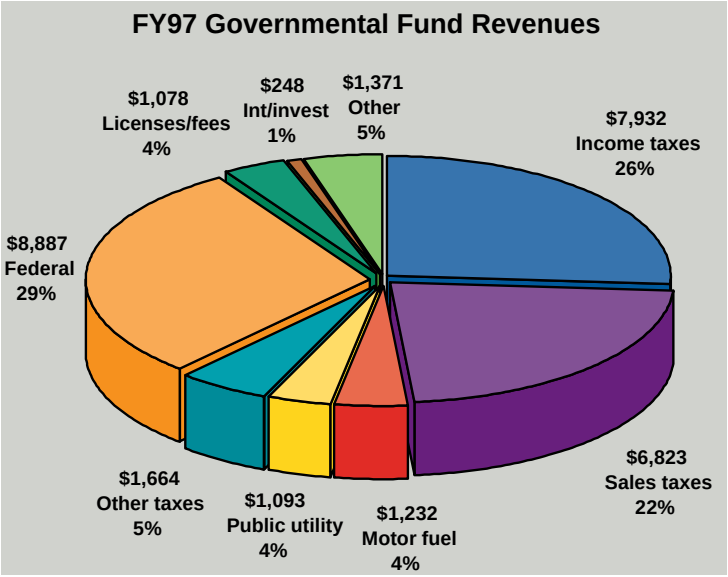
Fund Types/Account Group	FY 1997	FY 97%	% change from 1996	FY 1996
General	$ (451)	(1.1%)	52.6%	$ (951)
Special Revenue	2,683	6.4%	14.4%	2,346
Debt Service	639	1.5%	20.6%	530
Capital Projects	135	0.3%	(37.8%)	217
Proprietary	281	0.7%	23.8%	227
Trust	34,210	80.8%	34.0%	25,536
General fixed assets	4,834	11.4%	5.4%	4,588
Total Fund Balances	$42,331	100.0%	30.3%	$32,493

* The above numbers include primary government funds only.



Revenues

The governmental fund types are those through which most State functions are financed. These fund types (the general, special revenue, capital projects, and debt service funds) are presented on the modified accrual basis of accounting. Revenues on the modified accrual basis are recognized when they are both measurable and available to finance current operations. Revenues (amounts expressed in millions) from various sources for fiscal years 1997 and 1996 are as in the following table.



Fiscal year 1997 governmental funds revenues increased by $1.8 billion (6%) over 1996 revenues. State-imposed taxes including income, sales, motor fuel, public utility, and miscellaneous other taxes remained the largest overall revenue source for fiscal year 1997 and comprised nearly 62% of total State revenues.

Revenue Source	Amount 1997	Amount 1996	Percentage of Total 1997	Percentage of Total 1996	Increase (Decrease) from 1996	Percentage Increase (Decrease) from 1996
Taxes:						
Income	$ 7,932	$ 7,350	26%	26%	$ 582	8%
Sales	6,823	6,520	22%	23%	303	5%
Motor fuel	1,232	1,197	4%	4%	35	3%
Public utility	1,093	1,047	4%	4%	46	4%
Other	1,664	1,696	5%	6%	(32)	(2%)
Federal government	8,887	8,387	29%	29%	500	6%
Licenses & fees	1,078	1,021	4%	3%	57	6%
Interest/investment	248	240	1%	1%	8	3%
Other	1,371	1,063	5%	4%	308	29%
Total	$30,328	$28,521	100%	100%	$1,807	6%

❑ *Income Taxes*

The Illinois income tax has two major components - the corporate income tax (4.8%) and the individual income tax (3%). Income tax revenues, the state's largest tax revenue source, increased $582 million (8%) from fiscal year 1996. This increase is generally the result of an improved economy and the resulting growth in taxable incomes. Fiscal year 1997 income tax revenue on a GAAP basis is reported net of $747 million in GAAP basis refunds as compared to $717 million in refunds reported in fiscal year 1996. There are thirty other states that have flat-rate corporate income taxes, ranging from 4% in Kansas to 10.75% in Connecticut. There are seven other states that levy a flat-rate personal income tax ranging from 2.8% in Pennsylvania to 6% in Tennessee.

❑ *Sales Taxes*

The Illinois sales tax consists of two sets of taxes: (1) the retailers' occupation tax and use tax and (2) the service occupation tax and service use tax. Generally, except for food and drugs, the sales tax rate is 6.25% of the purchase price. Of this 6.25%, the state retains 5% and distributes 1.25% to local governments. The GAAP basis sales tax also includes a small amount attributable to the automobile renting occupation and use tax. During fiscal year 1997, sales taxes remained the second largest tax revenue source, increasing $303 million (5%) from fiscal year 1996. The increase is due to general growth in retail sales in an improved economy.

❑ *Federal Government*

Federal government revenues increased $500 million (6%) during fiscal year 1997 and continue as the second largest revenue source on a GAAP basis for 1997 (second only to the State-imposed taxes discussed above). The most significant increase was at the Department of Public Aid where revenues of the General Fund increased $187 million for federal government Medicaid reimbursement revenues. Secondly, federal government reimbursement revenues of the Medicaid assessment program accounts within the General Fund increased $144 million. The General Fund accounts and increases (decrease) were: County Hospital Services Provider Fund, $99 million; University of Illinois Hospital Services Provider Fund, $34 million; Long-Term Care Provider Fund, $19 million; and the Hospital Provider Fund, ($11 million).

Other significant increases occurred in the Road Fund ($136 million) administered by the Department of Transportation. The increase is attributable to the federal highway program and more timely billing on completed projects. Revenues at the Illinois Emergency Management Agency increased $39 million in the Federal Aid Disaster Fund due to the relief activity resulting from the July, 1996 flooding in Northern Illinois and the March, 1997 flooding of the Ohio River in Southeastern Illinois.

Federal government revenues at the Department of Children and Family Services (Children Services' Fund) increased $36 million due to maximization of reimbursable expenditures and general program increases.

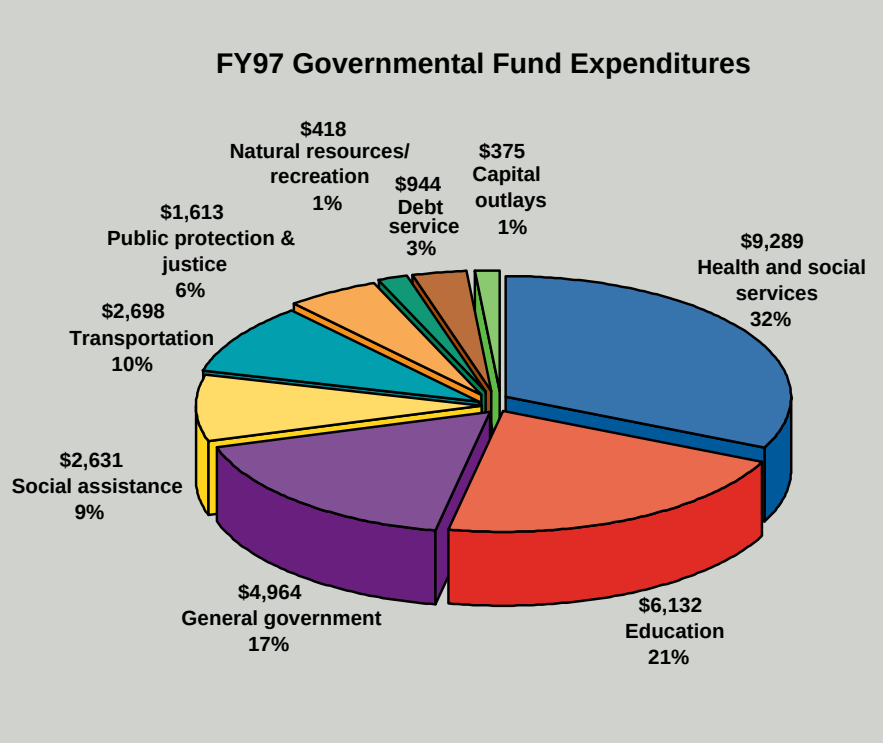
❑ *Other Revenues*

Other revenues increased $308 million or 29% during the current fiscal year. The increase is due to increased revenue fee matching activity in the Medicaid program, primarily in the county hospital services program. Additionally, $33.6 million was received from various local governments by the Department of Transportation for improvements to Scott Air Force Base.

Expenditures

Governmental funds expenditures of $29 billion in fiscal year 1997 increased $1,093 million (4%) over 1996 and were $1,264 million less than revenues on a GAAP basis. Expenditures for governmental fund types are presented on the modified accrual basis of accounting and are generally recognized when the liability is incurred regardless of when payment is made. Expenditures (amounts expressed in millions) for major governmental fund functions in fiscal year 1997 and 1996 were as follows:

Expenditure Function	Amount 1997	Amount 1996	Percentage of Total 1997	Percentage of Total 1996	Increase (Decrease) from 1996	Percentage Increase (Decrease) from 1996
Health and social services	$ 9,289	$ 8,732	32%	31%	$ 557	6%
Education	6,132	5,753	21%	21%	379	7%
General government	4,964	4,914	17%	18%	50	1%
Social assistance	2,631	2,843	9%	10%	(212)	(7%)
Transportation	2,698	2,627	10%	10%	71	3%
Public protection and justice	1,613	1,481	6%	5%	132	9%
Natural resources/ recreation	418	365	1%	1%	53	15%
Debit service	944	890	3%	3%	54	6%
Capital outlays	375	366	1%	1%	9	2%
Total	$29,064	$27,971	100%	100%	$1,093	4%



❑ *Health and Social Service Expenditures*

Health and social services expenditures of $9.3 billion were the largest expenditure function for fiscal year 1997, increasing by $557 million (6%) over fiscal year 1996. This expenditure function is 32% of total spending on a GAAP basis, increasing slightly from 31% in fiscal year 1996. Significant fluctuations in the General Fund were: a $232 million increase in Medicaid expenditures (including the Medicaid assessment program accounts) primarily for hospitals; Department of Mental Health-increase of $126 million primarily for payments to Medicaid recipients at intermediate care facilities; Department of Children and

Family Services-increases of $95 million for operational expenditures for foster care, adoption and other programs formerly split between the Childrens' Services Fund and the General Fund. Department of Public Health expenditures in the General Fund increased $41 million primarily for the Medicaid Family Case Management program formerly administered by Public Aid.

❑ *Education Expenditures*

Education expenditures were the second largest expenditure function in the governmental funds for fiscal year 1997. Education expenditures increased $379 million (7%) from fiscal year 1996 on a GAAP basis.

Significant education expenditure increases, that reflect the budgetary emphasis on education in fiscal year 1997, were at the State Board of Education where expenditures increased $243 million in the General Fund.

Other education expenditure increases were in the State Board of Education Federal Department of Education Fund ($24 million increase) for increased eligible reimbursements and in the Special Education Medicaid Matching Fund ($24 million increase) where more children received Medicaid services provided by local school districts. The Teachers' Retirement System received $53 million more in fiscal year 1997 from the State's Common School account within the General Fund to pay the employer contribution of local school district teachers as required by law.

❑ *Social Assistance Expenditures*

Social assistance expenditures decreased $212 million (7%) from the last fiscal year. The largest decrease was in the food stamp program administered by Public Aid where expenditures decreased $121 million. The decrease is attributable to fewer individuals eligible to receive food stamps. Other significant decreases occurred at the Department of Public Aid in the General Fund ($50 million decrease in Aid to Families with Dependent Children ("AFDC"), Aged, Blind and Disabled, and other social assistance programs) and the Child Support Enforcement Trust Fund ($49 million decrease due to timing differences and shortened lapse period even though the program increased for fiscal year 1997). Additionally, the Department of Employment Security Unemployment Trust Fund expenditures decreased by $49 million (4%) due to improved health of the job market as reflected in the lower unemployment rate in Illinois.

❑ *Public Protection and Justice*

Public protection and justice expenditures increased $132 million (9%) from fiscal year 1996 to 1997. A significant expenditure increase occurred at the Department of Corrections due to increased inmate population at the new Tamms prison and the Illinois Youth Correctional Facility at Murphysboro ($56 million increase). Expenditures increased $39 million in the Federal Aid Disaster Fund resulting from floods in July, 1996 in northern Illinois and in March, 1997, in southeastern Illinois.

❑ *Other Expenditures*

Transportation expenditures increased $71 million, a 3% increase after a lower spending year in fiscal 1996. The previous year's expenditures were off 3% due to a late spring that slowed construction.

Capital outlay expenditures increased $9 million (2%) but still constitute only 1% of total general governmental fund expenditures. Noteworthy is the $16.1 million in improvements to the Graham Correctional facility.

FINANCIAL INFORMATION SUMMARY

The following balance sheet and operating statements have been condensed from the statements included in the State of Illinois *Comprehensive Annual Financial Report* utilizing the "memorandum only" column of the primary government.

State of Illinois

Balance Sheet - Primary Government

	Amounts (in millions) FY1997	FY1996
Assets (and other debits)		
Cash	$ 8,792	$ 7,485
Investments	36,940	28,083
Receivables, net	6,466	6,154
Fixed assets	4,909	4,654
Other assets	1,522	1,511
Other debits	19,718	20,204
Total assets and other debits	$ 78,347	$ 68,091
Liabilities		
Payables	$ 8,602	$ 8,404
Pension liability	10,557	11,026
Bonds outstanding	8,507	8,412
Depository and other	6,018	5,476
Other	2,332	2,281
Total liabilities	36,016	35,599
Fund Balances/Retained Earnings		
Investment in fixed assets	4,834	4,588
General	(451)	(952)
Special revenue	2,683	2,346
Debit service	639	530
Capital projects	135	217
Proprietary	281	227
Trust	34,210	25,536
Total fund equity	42,331	32,492
Total liabilities and fund balances/ retained earnings	$ 78,347	$ 68,091

Operating Statement - Primary Government

	Amounts (in millions) FY1997	FY1996
Revenues		
Taxes -		
Income	$ 7,932	$ 7,350
Sales	6,823	6,520
Other taxes	5,179	5,146
Federal government	8,910	8,410
Charges for sales and services	2,628	2,666
Interest income	5,583	3,055
Contributions	1,593	1,478
Licenses and fees	1,078	1,021
Other	1,412	1,131
	41,138	36,777
Expenditures/Expenses		
Health and social services	9,290	8,732
Education	6,132	5,753
General government/administrative	5,149	5,076
Social assistance	3,873	4,132
Transportation	2,698	2,627
Public protection and justice	1,613	1,481
Debt service	944	941
Benefit payments and refunds	2,614	2,553
Prizes and claims	827	839
Other	1,222	1,112
	34,362	33,246
Net other sources (uses) and nonoperating revenues (expenses)	(1,169)	(728)
Excess of revenues over expenditures and net other uses	$ 5,607	$ 2,803

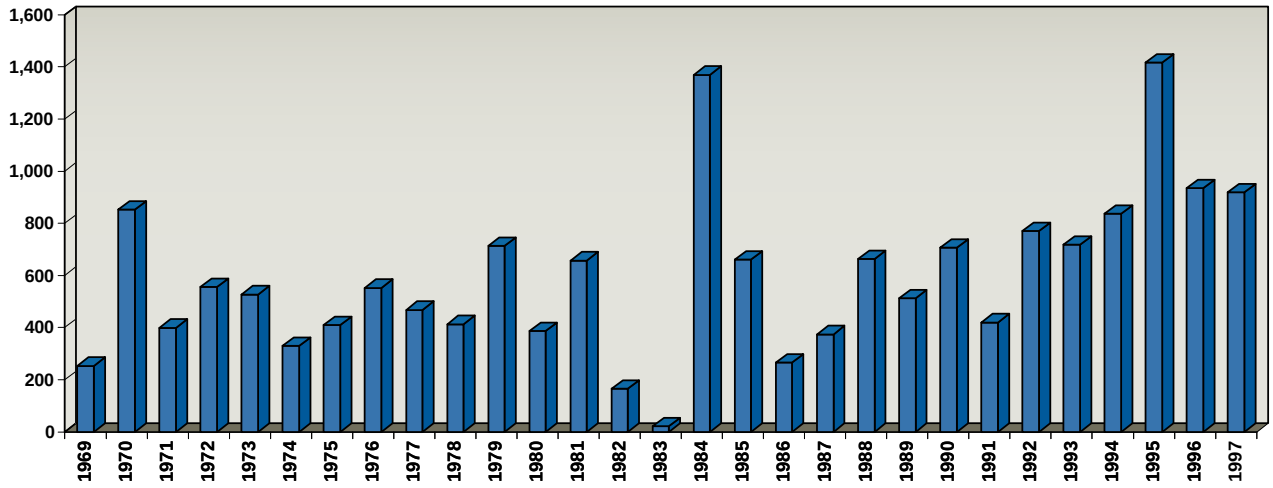
FISCAL SUMMARY

Due to continued strength in the economy, Illinois' General Funds experienced a $918 million or 5.1% increase in base revenues in fiscal year 1997 - the fourth largest dollar increase on record. This growth trailed the two previous years and fiscal year 1984 when income tax rates were increased.

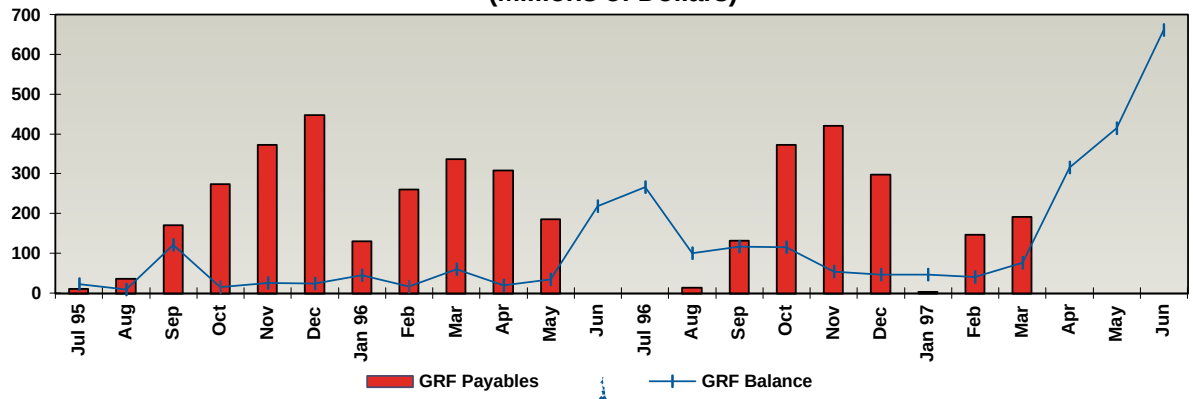
The strong revenue growth allowed for continuing improvement in the state's fiscal health. For the fourth consecutive year the state's General Fund GAAP balance improved, rising from a $951 million deficit in 1996 to a $451 million deficit in 1997. This accomplishment was also due in part to the decline in Section 25 liabilities. Fiscal year 1997 was the fifth straight year of improvement in the state's budgetary balance (measured on a cash basis) as the balance rose from a $292 million deficit in 1996 to a positive balance of $45 million. This marks the first positive budgetary balance since fiscal year 1989.

Building on cash improvements from the prior four years, the state did not have to utilize short-term borrowing for cash flow purposes for the first time in the past six years. Overdue payables from the General Funds were reduced steadily through the year. By the end of April, 1997, payment delays were eliminated.

Changes in General Funds Base Revenue
FY 1969 - FY 1997
(Millions of Dollars)



General Revenue Fund Balances and Payables
Monthly July 1995 to June 1997
(Millions of Dollars)



General Funds Revenue Performance — Up 5.1% in Fiscal Year 1997

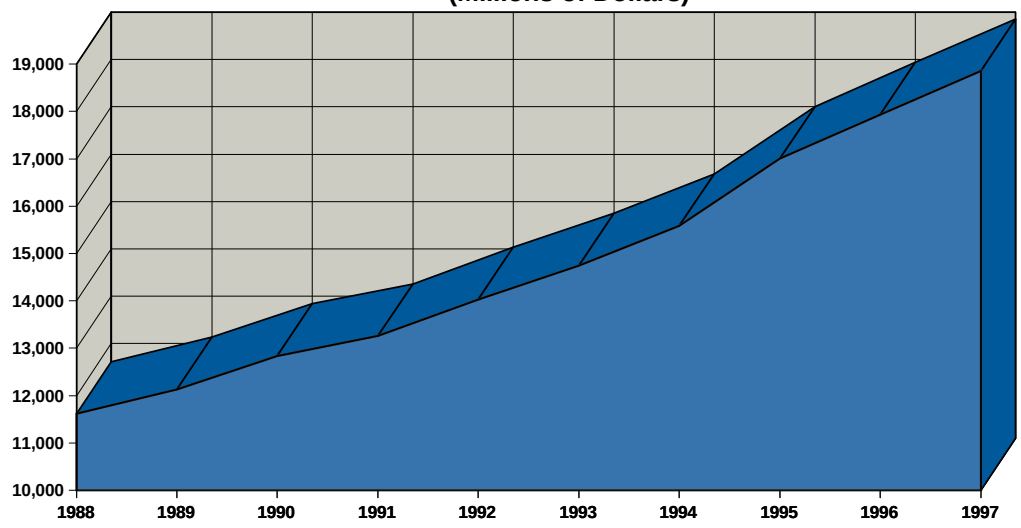
General Funds base revenue increased $918 million or 5.1% in fiscal year 1997, growing to $18.854 billion from $17.936 billion in fiscal year 1996.

Over the last ten years, total base revenue increased $7.234 billion for an average annual increase of 5.5%. Therefore, the growth registered in fiscal year 1997 is just slightly below the annual average. Over this ten year period, there was a 20% increase in income tax rates, creation of riverboat gambling and an explosive growth in federal reimbursable spending. These factors have fueled the average annual growth rate.

Fiscal year 1997 revenue growth was $447 million more than the estimated revenue growth when the fiscal year 1997 budget was passed. This additional revenue growth is partly due to stronger than expected economic activity and a new source of revenue. An intergovernmental transfer agreement between Cook County and the state resulted in the deposit of $251 million into the General Funds.

The impact of the state economy is most evident in the increases in the state's major tax sources directly tied to economic activity, namely personal and corporate income taxes and sales taxes. Growth in these sources and the intergovernmental transfer offset declines in revenues from federal sources and gambling.

Total Base Revenue
General Funds, FY 1988 to FY 1997
(Millions of Dollars)



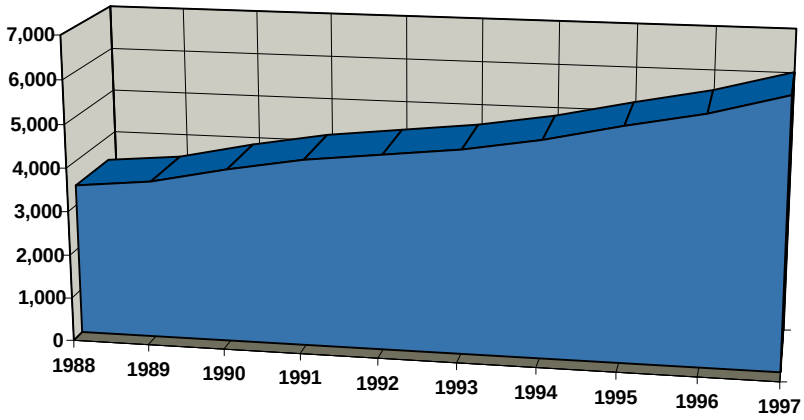
General Funds Revenues
(Millions of Dollars)

	Fiscal Year										Change from FY 1988 to FY 1997	
	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	Amount	Percent
Personal Income	$ 3,458	$ 3,619	$ 3,984	$ 4,278	$ 4,477	$ 4,665	$ 4,947	$ 5,333	$ 5,669	$ 6,139	$2,681	77.5 %
Corporate Income	703	666	568	542	577	631	755	898	978	1,085	382	54.3
Sales	3,508	3,728	3,827	3,863	3,986	4,094	4,371	4,651	4,798	4,992	1,484	42.3
Gaming Sources:												
Miscellaneous	10	11	12	12	12	12	12	12	12	12	2	20.0
Lottery Fund	524	586	594	580	611	587	552	588	594	590	66	12.6
Riverboat Gaming	0	0	0	0	8	54	118	171	205	185	185	N/A
Total Gaming	534	597	606	592	631	653	682	771	811	787	253	47.4
Public Utility Taxes	561	597	684	690	703	735	784	743	833	873	312	55.6
Other Tax Sources	863	931	1,070	1,051	1,130	1,132	1,123	1,170	1,181	1,400	537	62.2
Other Transfers In	416	276	199	191	293	194	234	338	327	309	(107)	(25.7)
Base State Sources	$ 10,043	$10,414	$10,938	$11,207	$11,797	$12,104	$12,896	$13,904	$14,597	$15,585	$5,542	55.2 %
Federal Sources	1,577	1,719	1,903	2,054	2,235	2,646	2,690	3,098	3,339	3,269	1,692	107.3
Total Base Revenue	$ 11,620	$12,133	$12,841	$13,261	$14,032	$14,750	$15,586	$17,002	$17,936	$18,854	$7,234	62.3 %
S-T Borrowing	0	0	0	0	185	300	600	300	200	0	0	N/A
Total Revenue	$ 11,620	$12,133	$12,841	$13,261	$14,217	$15,050	$16,186	$17,302	$18,136	$18,854	$7,234	62.3 %

❑ *Personal Income Tax - Up 8.3%*

Reflecting gains in employment and a 5.74% increase in personal income, personal income tax revenues grew from $5.669 billion in fiscal year 1996 to $6.139 billion in fiscal year 1997.

Personal Income Tax Receipts
General Funds, FY 1988 to FY 1997
(Millions of Dollars)



The $470 million or 8.3% increase accounted for almost 51.2% of the increase in base revenues. Also, growth in interest income and capital gains added to the increase in personal income taxes.

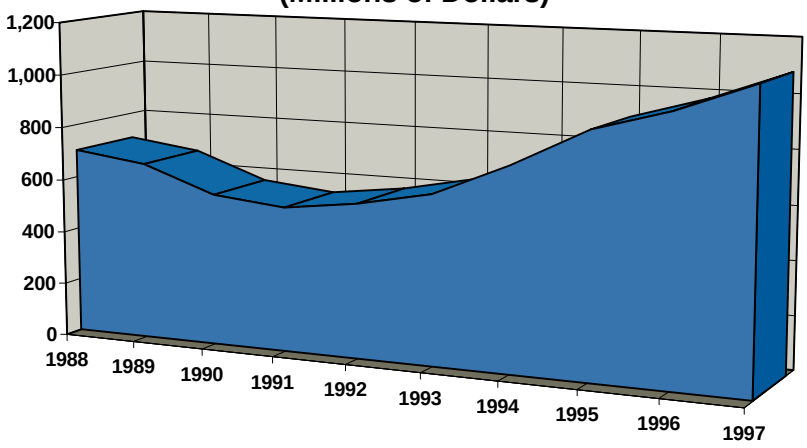
The personal income tax is the single largest source of revenue to the General Funds, accounting for 32.6% of total revenue in fiscal year 1997. That share has increased from 29.8% in fiscal year 1988, due in large part to the tax increase in fiscal year 1990.

Since fiscal year 1988, personal income tax revenues have grown $2.681 billion or 77.5%. The average annual increase over this time is 6.6% making this year substantially above average and the largest percentage increase since fiscal year 1990. While the $470 million growth is the largest dollar increase over the past ten years, comparisons to prior years can be misleading. When the tax rate was increased in fiscal year 1990, the increase was divided between education and local governments. The local portion varied from fiscal year 1992 until its elimination in fiscal year 1995. Since then the local portion from the tax increase has been deposited into the General Funds.

❑ *Corporate Income Tax - Up 10.9%*

Reflecting growth in profits, corporate income tax revenue increased from $978 million in fiscal year 1996 to $1.085 billion in 1997, an increase of $107 million or 10.9%. This represents 11.7% of the growth in base revenues and marks the third year in a row that this source has been at record levels. Continued strength in the economy, including low interest rates and strong exports, have allowed corporations to maintain profit margins.

Corporate Income Tax Receipts
General Funds, FY 1988 to FY 1997
(Millions of Dollars)



During the past ten years, this source has ranged from the current high to a low of $542 million in fiscal year 1991. Over this period, corporate income tax receipts increased $382 million, averaging 4.9% growth per year. As

with personal income taxes, corporate income tax revenues were affected by the redistribution of the local portion of the tax increase.

Corporate income tax receipts are highly volatile, rising and falling dramatically during economic cycles. This is clearly evident in fiscal years 1988 to 1991 as receipts fell from $703 million to $542 million. Corporate income tax revenues declined 14.7% in fiscal year 1990 even with the 20% increase in the tax rate. Because of this volatility, corporate income tax revenues share of base revenues, as well as its contribution to revenue growth, varies widely from year to year.

❑ *Sales Taxes - Up 4.0%*

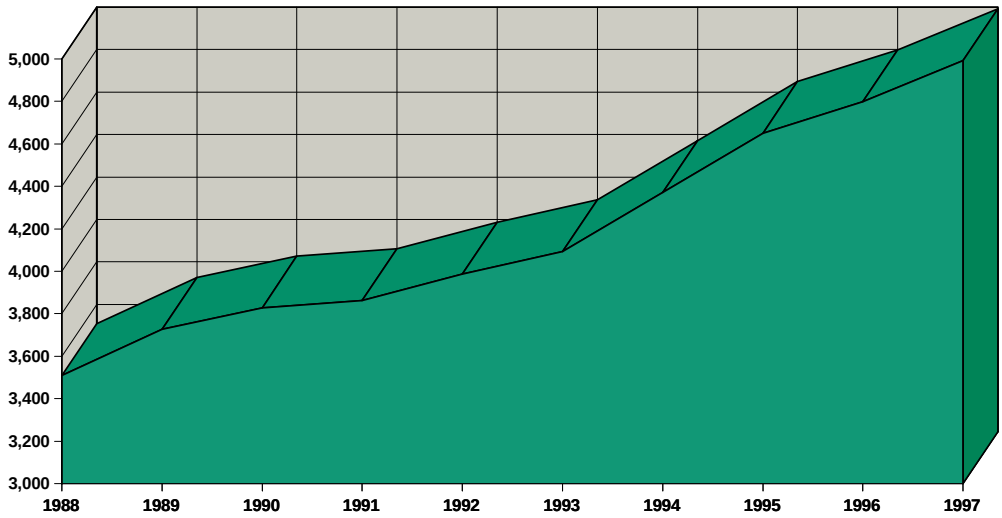
With a close link to personal income and retail sales, sales tax revenues increased $194 million or 4.0%, growing from $4.798 billion in fiscal year 1996 to $4.992 billion in fiscal year 1997. This growth contributed 21.1% of the increase in base revenue for the fiscal year.

The sales tax is the second largest source of General Funds revenue, accounting for 26.5% of total revenue in fiscal year 1997. That share is the lowest in the last ten years due largely to the growth of other revenue sources, such as the personal and corporate income taxes and federal sources.

Sales tax receipts have increased $1.484 billion since fiscal year 1988, an average of almost 4.0% per year. While this year's growth was average, it was higher than last year's increase of 3.2%.

Revenue growth from this source has varied over the past ten years from 0.9% in fiscal year 1991 to 7.8% in fiscal year 1988. In addition to economic activity, statutory factors have also affected the growth in this source. In fiscal year 1992, sales tax collections were accelerated, accounting for approximately 59% of the growth for that year. In addition, sales tax diversions to other funds have grown from $142 million in fiscal year 1988 to $329 million in fiscal year 1997.

Sales Tax Receipts
General Funds, FY 1988 to FY 1997
(Millions of Dollars)

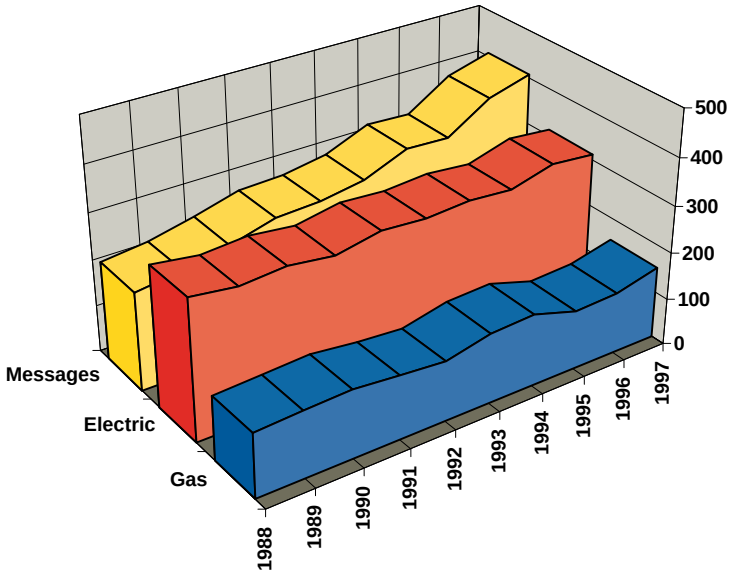


❑ *Public Utility Taxes - Up 4.8%*

Receipts from public utility taxes totaled $873 million in fiscal year 1997, an increase of $40 million or 4.8% more than revenues of $833 million in fiscal year 1996. Public utility taxes are comprised of three components, messages or telecommunications, gas and electric. Of this growth, $25 million or 62.5% was in telecommunications and $23 million in gas while electric declined $8 million.

Since fiscal year 1988, public utility tax revenues have grown $312 million or 55.6%. The telecommunications portion is primarily responsible for the overall growth. Over the ten year period, gas and electric tax revenues have fluctuated due in part to the weather, while telecommunications have shown a steady increase due to technological advancements such as faxes, modems, cellular phones and pagers. During this period, telecommunications tax revenues have more than tripled, increasing from $124 million in fiscal year 1988 to $407 million in fiscal year 1997. At the same time, gas tax revenues grew $17 million or 12.5% and electric tax revenues increased 4.0% or $12 million.

Public Utility Tax Receipts
General Funds, FY 1988 to FY 1997
(Millions of Dollars)



The growth in telecommunications revenues is somewhat misleading. Fiscal year 1987 was the first full year of the rewritten Messages Tax Act and a large portion of this tax was protested. The following chart adjusts for the protested amounts and shows telecommunications tax revenues up $196 million or 92.9%. Even with this adjustment, telecommunications is by far the fastest growing component of public utility tax revenues.

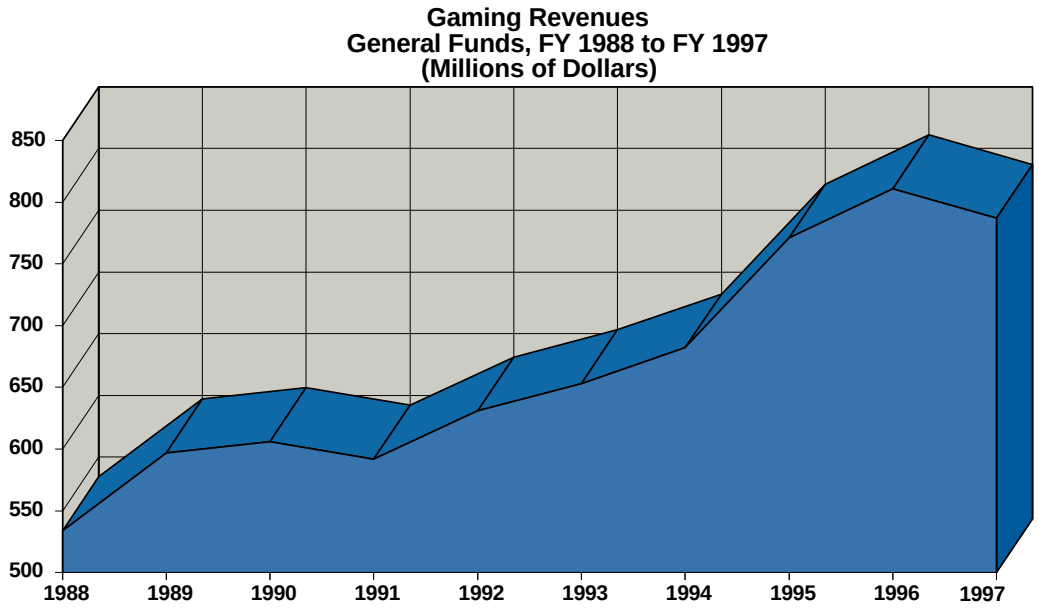
❑ *Gaming Taxes and Transfers - Down 3.0%*

General Funds revenues from gaming activities dropped $24 million or 3.0%, falling from $811 million in fiscal year 1996 to $787 million in 1997. Transfers from riverboat gambling decreased $20 million and lottery transfers were down $4 million. Over the last ten years, gaming revenues have increased $253 million or 47.4% with riverboat gambling accounting for $185 million or 73.1% of this growth.

Although the lottery is the largest component of gaming revenue, its performance over the past decade has been mixed. After peaking at $611 million in fiscal year 1992, transfers declined the next two years and have been fairly consistent since then.

The growth in riverboat gaming revenues to the General Funds is due to the popularity of this form of gambling and the phase-in of licensed boats. Fiscal year 1996 was the first full year reflecting receipts from all licensed boats. With the introduction of

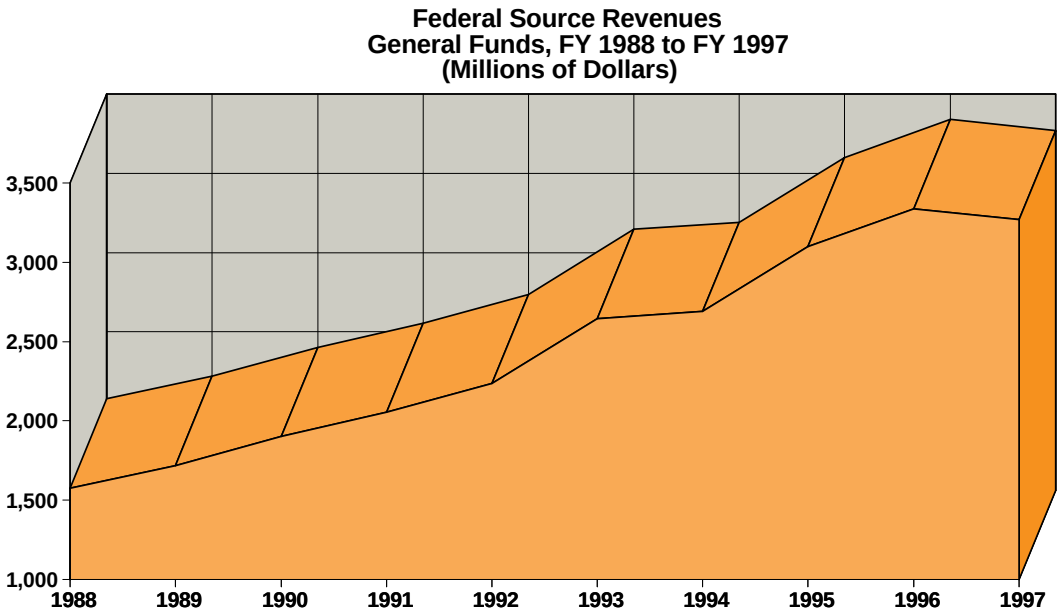
riverboat gaming competition in northern Indiana, and increased competition in Missouri, the era of rapid growth in Illinois came to an end in 1997.



❑ *Federal Sources - Down 2.1%*

Federal sources decreased $70 million or 2.1%, falling from $3.339 billion in fiscal year 1996 to $3.269 billion in fiscal year 1997. Revenues from this source accounted for 17.3% of total base revenues. Most of the decline is due to lower federally reimbursable spending for medical assistance.

Since fiscal year 1988, federal sources have more than doubled, increasing by $1.692 billion for an annual average growth rate of 8.4%. The explosive growth in this source over the past ten years is due primarily to the increase in medical assistance spending. Budgetary problems and the explosive growth in medical costs resulted in the deferral of medical assistance payments under Section 25. These liabilities grew dramatically from fiscal year 1990 to fiscal year 1994. However, deferrals of Medicaid payments have been dramatically reduced over the past three years which accounts for the spiked increases in federal sources in prior years and the decline this year.



General Funds Spending — Up 3.6% in Fiscal Year 1997

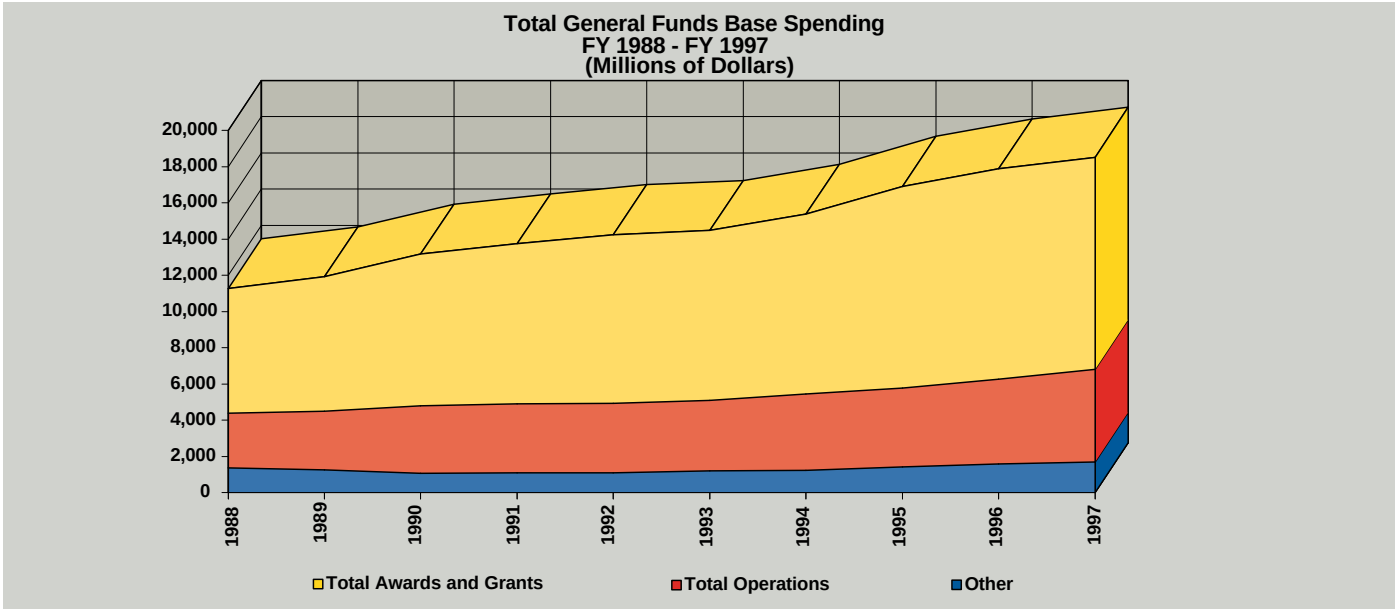
General Funds expenditures from fiscal year 1997 appropriations totaled $18.517 billion. This represents an increase of $635 million or 3.6% over comparable (spending minus short-term borrowing costs) fiscal year 1996 spending. Operations accounted for 68.5% of the increase, followed by transfers out (14.8%), awards and grants (14.2%) and all other spending (2.5%).

Over the 10-year period, expenditures grew $7.243 billion or 64.2%. In contrast to fiscal year 1997, awards and grants represented 66.6% of the growth while operations accounted for 28.7%. All other expenditures accounted for 4.7% but with a major change in the spending components. Income tax refunds as an expenditure from the General Funds were eliminated in fiscal year 1989. Increases in transfers out, primarily for debt service and local governments offset this decline.

Two years are responsible for 38.9% of the $7.243 billion growth. In fiscal year 1990, there was an increase in income tax rates which afforded a spending surge of $1.271 billion. Fiscal year 1995 was an exceptional year for revenue growth and allowed for the $1.544 billion spending increase, primarily in grants for prior years liabilities.

General Funds Expenditures (From Current Year Appropriations)
By Category and Major Agency
(Millions of Dollars)

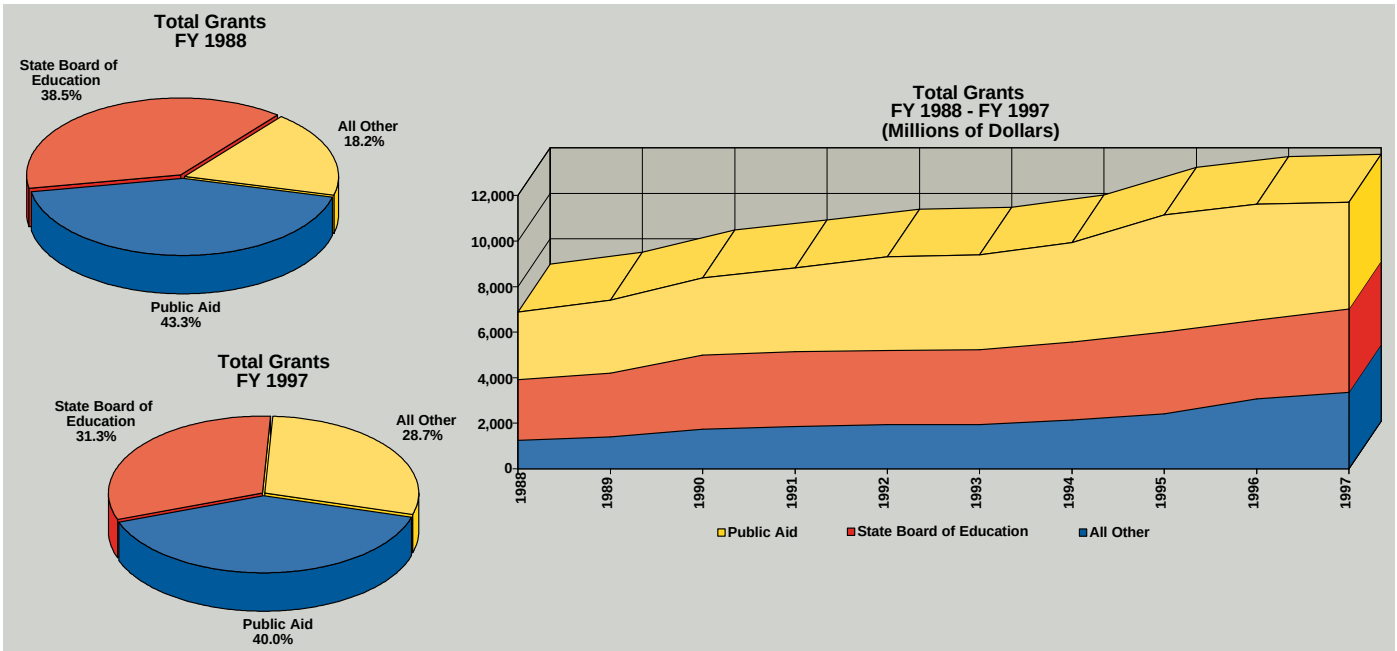
	Fiscal Year										Change from FY 1988 to FY 1997	
Operations:	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	Amount	Percent
Higher Education	$ 890	$ 933	$ 1,112	$ 1,120	$ 1,080	$ 1,066	$ 1,091	$ 1,139	$ 1,232	$ 1,308	$ 418	47.0%
Corrections	403	432	486	543	556	598	659	700	771	832	429	106.5
Mental Health	409	438	466	483	481	495	514	520	535	546	137	33.5
Central Management Services	153	195	273	275	330	400	465	425	391	475	322	210.5
Public Aid	298	331	382	384	370	363	382	396	413	455	157	52.7
Children and Family Services	83	88	91	104	110	113	149	181	247	254	171	206.0
Other Operations	802	832	932	919	922	876	942	982	1,091	1,245	443	55.2
Total, Operations	$ 3,038	$ 3,249	$ 3,742	$ 3,828	$ 3,849	$ 3,911	$ 4,202	$ 4,343	$ 4,680	$ 5,115	$ 2,077	68.4%
Awards and Grants:												
Public Aid:												
Medical Assistance	$ 1,859	$ 2,157	$ 2,324	$ 2,498	$ 2,918	$ 3,110	$ 3,249	$ 3,997	$ 3,997	$ 3,668	$ 1,809	97.3%
Aid to Families with Dependent Children	818	783	795	865	893	890	938	963	956	878	60	7.3
Other	301	276	280	314	299	168	177	185	143	140	(161)	(53.5)
Total, Public Aid	2,978	3,216	3,399	3,677	4.110	4,168	4,364	5,145	5,096	4,686	1,708	57.4
State Board of Education:												
Apportionment	1,773	1,823	2,073	2,106	2,109	2,121	2,186	2,285	2,326	2,378	605	34.1
Categoricals	623	681	852	881	853	854	905	979	1,032	1,170	547	87.8
Other	258	293	317	312	300	303	325	323	101	113	(145)	(56.2)
Total, State Board of Education	$ 2,654	$ 2,797	$ 3,242	$ 3,299	$ 3,262	$ 3,278	$ 3,416	$ 3,587	$ 3,459	$ 3,661	$ 1,007	37.9%
Mental Health	214	238	309	347	351	371	418	470	791	893	679	317.3
Children and Family Services	160	187	231	262	346	433	521	598	657	689	529	330.6
Higher Education	373	397	497	520	506	520	542	599	599	638	265	71.0
Teachers Retirement	20	12	23	6	6	5	5	4	299	354	334	N/A
Aging	80	85	102	100	113	100	109	118	123	142	62	77.5
Alcoholism and Substance Abuse	45	50	71	73	67	81	88	137	99	97	52	115.6
Other Awards and Grants	359	429	511	541	544	433	467	485	496	549	190	52.9
Total, Awards and Grants	$ 6,883	$ 7,411	$ 8,385	$ 8,825	$ 9,305	$ 9,389	$ 9,930	$11,143	$11,619	$11,709	$ 4,826	70.1%
Other General Funds Warrants Issued	450	277	20	22	19	18	12	13	11	27	(423)	(94.0)
Total, General Funds Warrants Issued	$10,371	$10,937	$12,147	$12,675	$13,173	$13,318	$14,144	$15,499	$16,310	$16,851	$ 6,480	62.5%
Regular Transfers Out	903	972	1,033	1,061	1,072	1,169	1,225	1,414	1,572	1,666	763	84.5
Base General Funds Expenditures	$11,274	$11,909	$13,180	$13,736	$14,245	$14,487	$15,369	$16,913	$17,882	$18,517	$ 7,243	64.2%
Short-Term Borrowing Repayment	104	0	0	0	193	306	609	308	205	0	(104)	(100.0)
Total, General Funds Expenditures	$11,378	$11,909	$13,180	$13,736	$14,438	$14,793	$15,978	$17,221	$18,087	$18,517	$ 7,139	62.7%



❑ *Awards and Grants - Up 0.8% in Fiscal Year 1997*

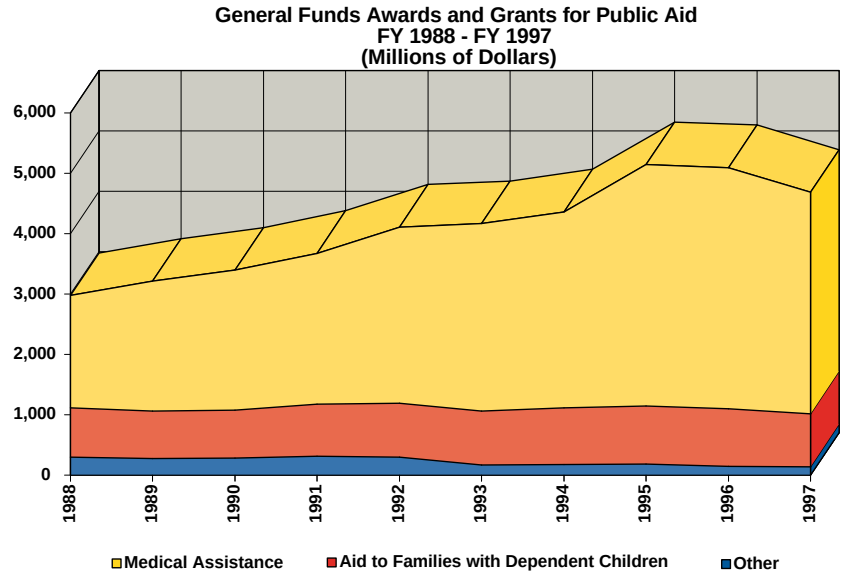
General Funds awards and grants spending of $11.709 billion in fiscal year 1997 exceeded grant expenditures of $11.619 billion in fiscal year 1996 by $90 million or 0.8%. This increase is 5.2 percentage points lower than the 6.0% average annual increase in grant spending over the past ten fiscal years.

Since fiscal year 1988, awards and grants spending has increased $4.826 billion or 70.1%. Fiscal year 1995 alone accounted for $1.213 billion or 25.1% of the increase over the ten year period. The average increase over the past ten fiscal years has been $483 million.



Public Aid - Down 8.0% in Fiscal Year 1997

The largest portion (40.0% in fiscal year 1997) of General Funds awards and grants expenditures are by the Department of Public Aid. Spending by the Department totaled $4.686 billion in fiscal year 1997, $410 million or 8.0% less than the $5.096 billion spent in fiscal year 1996. This decrease marks the second consecutive year that Public Aid grant spending has decreased after growing $2.167 billion or 72.8% from fiscal year 1988 to fiscal year 1995. The stabilization of grant spending by the Department in fiscal year 1996 and the significant decrease in 1997 are due in a large part to the decline in prior year's medical assistance liabilities carried into the subsequent fiscal year.



Of the $4.686 billion in grant spending by the Department in fiscal year 1997, $3.668 billion or 78.3% was for medical assistance. Medical assistance spending by the Department declined by $329 million or 8.2% from fiscal year 1996.

Over the past 10 years, medical assistance spending by the Department has increased $1.809 billion, accounting for all of the growth in public aid grant spending over the 10-year period as a decrease in other grants (particularly general assistance) has offset a slight increase in aid to families with dependent children.

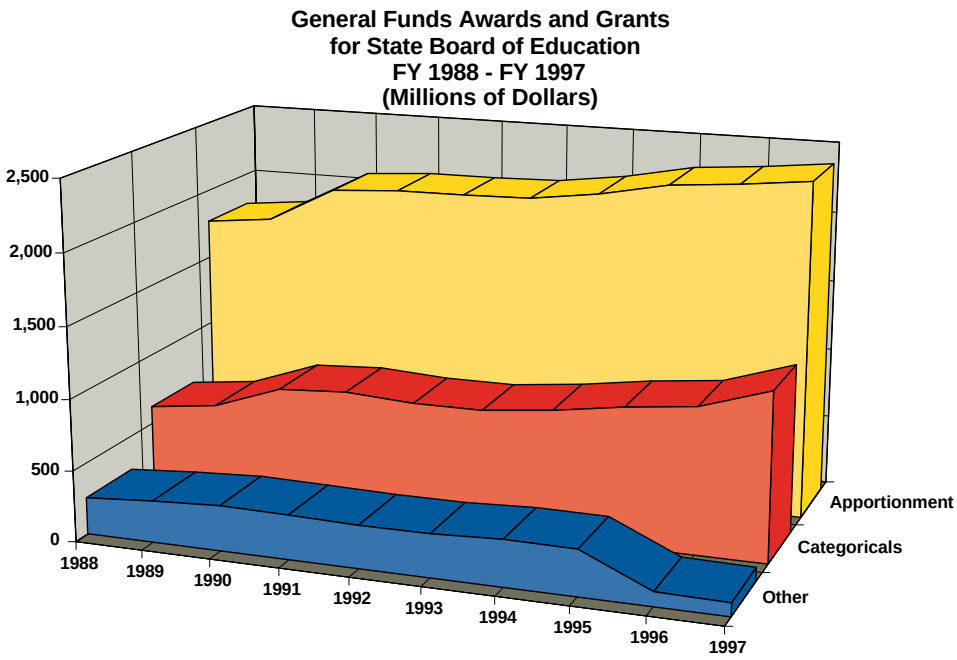
Medical assistance grant spending by the Department accounted for 31.3% of total General Funds awards and grants and 19.8% of total base expenditures in fiscal year 1997.

State Board of Education - Up 5.8% in Fiscal Year 1997

The State Board of Education accounted for the second largest portion (31.3%) of General Funds awards and grants expenditures in fiscal year 1997. Spending of $3.661 billion in 1997 by the State Board was $202 million or 5.8% more than fiscal year 1996 and $1.007 billion or 37.9% greater than in fiscal year 1988.

The largest portion of State Board grant spending is for apportionment or general state aid to school districts. These payments accounted for 65.0% of the State Board's total with $2.378 billion expended in fiscal year 1997 - $52 million or 2.2% higher than 1996. Apportionment grants have increased 34.1% since fiscal year 1988 while spending for categorical grants has grown 87.8%.

Unlike apportionment, categorical grants are for specific programs with almost two-thirds of spending utilized for special education programs for the disabled and for pupil transportation. Spending for categorical grants in fiscal year 1997 totaled $1.170 billion, $138 million or 13.4% higher than fiscal year 1996.



Other State Board grant spending totaled $113 million in fiscal year 1997, $12 million or 11.9% above 1996 and $145 million or 56.2% below 1988. The large decline in other grant spending is reflective of the fact that teacher's retirement contributions previously paid by the State Board are now paid by the Teacher's Retirement System (see all other awards and grants graphic on following page).

Together, Public Aid and the State Board of Education accounted for 71.3% of General Funds awards and grants in fiscal year 1997.

Mental Health and Developmental Disabilities - Up 12.9% in Fiscal Year 1997

Awards and grants expenditures of $893 million in fiscal year 1997 represents a $102 million or 12.9% increase over fiscal year 1996. Since fiscal year 1988, grant spending by the Department has increased an astounding $679 million or more than four times fiscal year 1988 spending of $214 million. The transfer of responsibility for medical assistance payments for intermediate care facilities from the Department of Public Aid, court ordered reforms, federal reforms and the continuing trend toward community based care have led to significantly increased grant spending by the Department.

Children and Family Services - Up 4.9% in Fiscal Year 1997

Grant spending from the Department of Children and Family Services has shown the most explosive growth of any agency over the decade. Spending totaled $689 million in fiscal year 1997, an increase of $32 million or 4.9%. Since fiscal year 1988, grant spending grew a phenomenal $529 million or 330.6%. The Department's share of total grants has increased from 2.3% in 1988 to 5.9% in 1997. Court ordered reforms have been the driving factor for the increases over the past few years.

Higher Education - Up 6.5% in Fiscal Year 1997

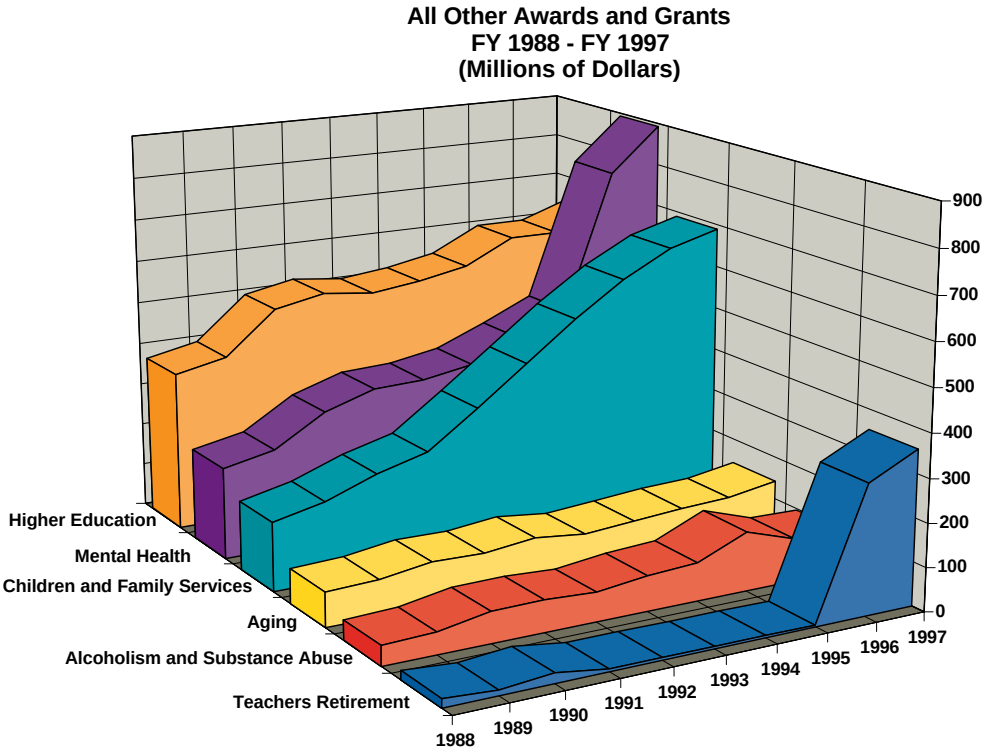
General Funds awards and grants expenditures for Higher Education totaled $638 million in fiscal year 1997, an increase of $39 million or 6.5% over 1996. The bulk of Higher Education grants are from the Community College Board and the Student Assistance Commission with $259 million and $300 million expended respectively in fiscal year 1997. Since fiscal year 1988, grants for Higher Education have increased $265 million or 71.0%.

Aging - Up 15.4% in Fiscal Year 1997

Grant spending of $142 million at the Department on Aging in fiscal year 1997 was an increase of $19 million or 15.4% over fiscal year 1996. Since fiscal year 1988, grant spending by the Department has increased $62 million or 77.5%. The largest portion ($108 million or 76.1%) of grant spending by the Department in fiscal year 1997 was for the Illinois Community Care Program Homemaker and Senior Companion Services.

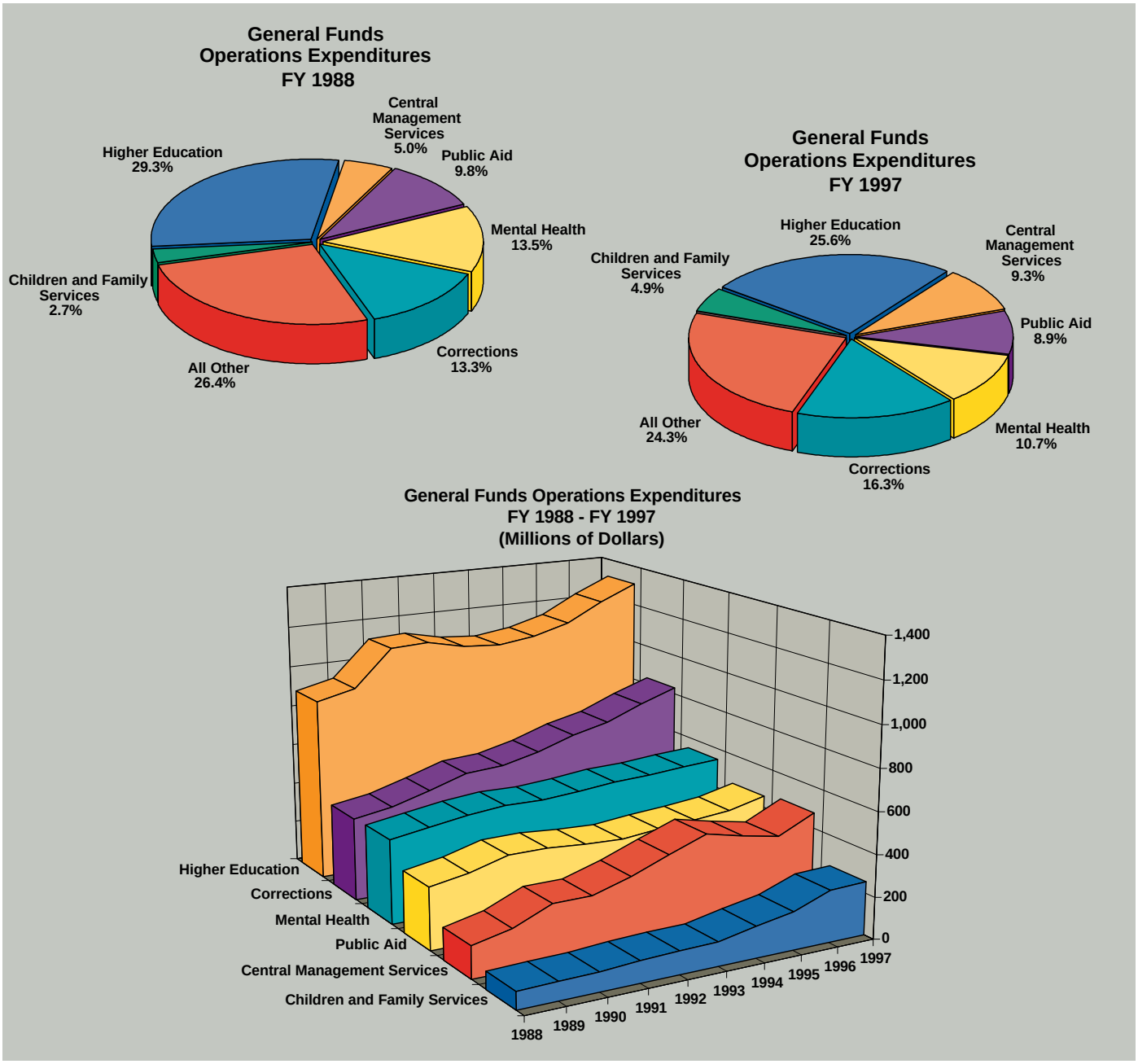
Alcoholism and Substance Abuse - Down 2.0% in Fiscal Year 1997

Other than the Department of Public Aid, the Department of Alcoholism and Substance Abuse had the only decrease of any major grant spending agency in fiscal year 1997. Fiscal year 1997 spending of $97 million was down $2 million or 2.0%. Grant expenditures by the Department have increased by $52 million or 115.6% since 1988, with $49 million of the increase occurring in fiscal year 1995.



❑ Operations — Up 9.3% in Fiscal Year 1997

Spending for operations from the General Funds in fiscal year 1997 totaled $5.115 billion, $435 million or 9.3% higher than fiscal year 1996. Over the past 10 fiscal years, spending for operations has increased $2.077 billion or 68.4%. The 9.3% increase in fiscal year 1997 is significantly higher than the 6.0% average annual increase over the past ten fiscal years. Two factors played a role in the significant increase in operations spending for fiscal year 1997. Contributions for state employee group insurance increased by $84 million or 23.9% over 1996 and retirement contributions were up $46 million or 21.9%. Together, these two factors accounted for 29.9% of the increase in fiscal year 1997.



Higher Education - Up 6.2% in Fiscal Year 1997

Higher education institutions accounted for the largest amount of spending for operations. In fiscal year 1997, higher education expenditures of $1.308 billion from the General Funds were $76 million or 6.2% higher than fiscal year 1996 and accounted for 25.6% of total operations. The University of Illinois accounted for $606 million or 46.3% of higher education's operations. Over the 10-year period examined, spending increased $418 million or 47.0%.

Corrections - Up 7.9% in Fiscal Year 1997

As the largest employer of any single state agency, the Department of Corrections recorded operations expenditures of $832 million in fiscal year 1997. This represents an increase of $61 million or 7.9% over 1996 and $429 million or 106.5% over 1988. Corrections operations expenditures accounted for 16.3% of total operations in fiscal year 1997 compared to 13.3% in 1988. The Department's increase in spending reflects the nearly 37.7% growth in employee headcount from the beginning of fiscal year 1988 to the end of fiscal year 1997 (10,468 to 14,410). Staff increases are due to the expansion of existing facilities and the opening of new correctional facilities to provide for the increased prison population.

Mental Health and Developmental Disabilities - Up 2.1% in Fiscal Year 1997

The second largest employer in state government is the Department of Mental Health and Developmental Disabilities with 11,299 employees at the end of fiscal year 1997, 1,781 or 13.6% fewer than at the beginning of fiscal year 1988. Fiscal year 1997 operations expenditures of $546 million were $11 million or 2.1% higher than 1996 spending and $137 million or 33.5% higher than 1988. Reforms and patient placement in community settings have resulted in fewer state operated facilities and staff.

Central Management Services - Up 21.5% in Fiscal Year 1997

Although most state agency operational expenditures are driven by employee salaries, this is not the case at the Department of Central Management Services. Fiscal year 1997 expenditures of $475 million include $435 million for group insurance contributions which pay for employee health benefits. The $435 million for group insurance represents an $84 million increase over fiscal year 1996 and accounts for all of the growth in Central Management Services operations spending in 1997.

Public Aid - Up 10.2% in Fiscal Year 1997

Spending for the operations of the Department of Public Aid from the state's General Funds totaled $455 million in fiscal year 1997, an increase of $42 million or 10.2%. The 10-year increase for the Department was $157 million or 52.7%.

Children and Family Services - Up 2.8% in Fiscal Year 1997

The Department of Children and Family Services had spending for operations of $254 million in fiscal year 1997, an increase of $7 million or 2.8% from fiscal year 1996. Since fiscal year 1988, operations spending has increased an astounding $171 million or 206.0%. Staffing increases of 53.2% (2,733 to 4,186) over the period due to court ordered reforms were primarily responsible for the significant increase. As a result, the Department's share of total operations from the General Funds increased from 2.7% to 4.9%.

Webster's defines "fiscal" as pertaining to the finances of a nation or branch of government. "Climate" is described as a prevailing condition or atmosphere. So what is the prevailing condition of Illinois state government finances? The analysis of the state's fiscal climate involves an examination of factors that have played a role in the past, an evaluation of recent trends, and a look at factors that will likely place demands on the state's resources in the near future.

Is the state's General Funds budget balanced? How have factors such as lapse period spending, payables, and Section 25 liabilities impacted the state's financial condition? What influences might determine the future direction of state finance?

❑ *Defining a Balanced Budget*

On a cash basis, the question of a balanced budget can be examined using three views. Ideally, the answer will be affirmative regardless of the view.

The first view involves a comparison of receipts and expenditures over the course of a twelve-month fiscal year. If receipts exceed expenditures, there is an operational surplus and the end-of-year available balance increases. If not, there is an operational deficit that can only be financed by drawing down the end-of-year balance.

The second and third views are based on the budgetary balance concept. View two compares the end-of-year balance to lapse period spending. Although state agency budgets are enacted on the basis of a 12-month fiscal year, agen-

General Funds Overview and Cash Basis Budgetary Balances
(Millions of Dollars)

	FY 1989	FY 1990	FY 1991	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
Beginning Balance	$ 246	$ 541	$ 395	$ 100	$ 131	$ 172	$ 230	$ 331	$ 426
Plus: Revenue	12,133	12,841	13,261	14,217	15,050	16,186	17,302	18,136	18,854
Less: Expenditures	11,838	12,987	13,556	14,186	15,009	16,128	17,201	18,041	18,474
June 30 Ending Balance	$ 541	$ 395	$ 100	$ 131	$ 172	$ 230	$ 331	$ 426	$ 806
Operational Surplus/ Deficit	$ 295	$ (146)	$ (295)	$ 31	$ 41	$ 58	$ 101	$ 95	$ 380
Balanced (View 1)	Yes	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Lapse Period Warrants	$ 393	$ 586	$ 766	$ 1,018	$ 802	$ 652	$ 672	$ 718	$ 761
Budgetary Balance	$ 148	$ (191)	$ (666)	$ (887)	$ (630)	$ (422)	$ (341)	$ (292)	$ 45
Balanced (View 2)	Yes	No	No	No	No	No	No	No	Yes
Balanced (View 3)	Yes	No	No	No	Yes	Yes	Yes	Yes	Yes

Balanced (View 1) Based on changes in the June 30 available balance
--Yes, if the balance increases (or is unchanged)
--No, if the balance decreases

Balanced (View 2) Based on the relationship between Lapse Period warrants and the June 30 available balance
--Yes, if the June 30 available balance exceeds Lapse Period warrants
--No, if Lapse Period warrants exceed the June 30 available balance

Balanced (View 3) Based on changes in the Budgetary Balance
--Yes, if the balance increases
--No, if the balance decreases

cies are permitted to spend their appropriations over a 14-month period (formerly 15 months). The additional two months (July and August) are collectively referred to as the lapse period. During this period agencies are allowed to use last year's spending authority (appropriation) to pay for bills incurred during the prior year.

If the end-of-year balance is high enough to cover lapse period spending, the budget is technically said to be balanced. If the opposite occurs, the budget is out of balance. When this happens, it effectively means that next year's money is used to pay last year's bills. This comparison produces a number that is commonly referred to as the budgetary balance.

The third view compares changes in the budgetary balance. If the budgetary balance improves, the budget is balanced. This holds even when the budgetary balance goes from a large negative to a smaller negative. In that case there is a cash improvement.

The table above presents data for the General Funds budgets from fiscal year 1989 through fiscal year 1997 under each of these views. This table shows operational surpluses in the last six years, negative budgetary balances in seven of the last eight years, and improved budgetary balances in the last five years.

Fiscal year 1997 marks the first time since 1989 that the budget has been balanced under all three views. Under the first view or the available balance concept, revenues exceeded expenditures in fiscal year 1997 and the state ended the year with an operational surplus of $380 million.

Under the budgetary balance concept, fiscal year 1997 ended with a budgetary surplus of $45 million (ending balance of $806 million minus lapse period spending of $761 million) and a balanced budget under the second definition. This surplus represents a $337 million improvement over fiscal year 1996's deficit of $292 million (view three).

Of these three views, the first is of limited use in judging the overall fiscal health of the state because it can be impacted by any number of timing factors. Although the third view shows whether the fiscal situation is moving in the right direction, it too is of limited value because it does not indicate whether the budget is actually balanced.

The second measure is the most comprehensive because it views a budget as balanced in any given year when the available resources meet or exceed the uses of those resources. What then constitutes available resources and what is included in uses?

The most obvious available resource is the amount of revenue collected during the year. However, by itself, the fact that revenue exceeds spending over the 12 months of a fiscal year does not mean that the budget is balanced. In fact, this circumstance occurred each year from fiscal year 1992 through 1997, yet a budgetary surplus was not achieved until 1997.

Available resources also includes the uncommitted end-of-year balance. The reason for counting revenues is clear, but the notion of an uncommitted balance is less obvious. Just because the state's fiscal year ends with a large balance does not necessarily mean that any of that amount is actually available for spending in the next year. The relationship between the ending balance and lapse period spending determines how much, if any, of the ending balance is actually available in the next year. A budgetary surplus represents available resources while a budgetary deficit is actually a claim on the next year's revenues.

Although fiscal year 1997 ended with a $45

million budgetary surplus, it also marked the third consecutive year of increased lapse period spending. This trend bears watching. While a lapse period is necessary to allow agencies to finish last year's transactions, the growing use of lapse period spending is not a sound fiscal practice.

❑ Projected Section 25 Expenditures - Down $287 Million, or 32.3%

The fiscal year 1997 estimate of liabilities to be paid out of future year appropriations is $601 million, a drop of $287 million, or 32.3%, from fiscal year 1996. Over the last three fiscal years, the estimate of payments to be made under the Section 25 exceptions has dropped by a combined $1.387 billion (to $601 million from $1.988 billion at the end of fiscal year 1994). This improvement has been reflected directly in the narrowing of the state's GAAP deficit.

What is Section 25?

Section 25 of the State Finance Act provides that the state's fiscal year lasts from July 1 through June 30 and that expenditures for liabilities incurred within a given fiscal year be paid for from that year's appropriation, with certain exceptions. These exceptions include liabilities for Medicaid, state employee and retiree health insurance, and certain spending from the Department of Public Health.

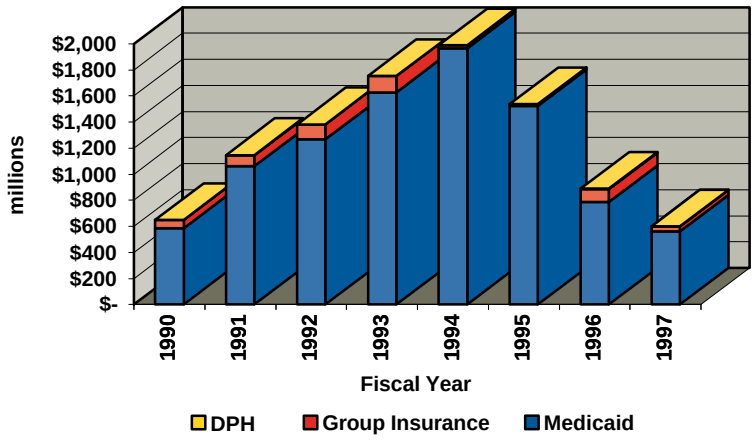
Payments made under these exceptions to Section 25 are similar to lapse period spending in that both sets of payments are for liabilities incurred before the end of the fiscal year, but paid after June 30th. For GAAP purposes, therefore, both types of payments are considered to be part of that year's spending. On a cash basis, however, the difference between these two types of expenditures is which fiscal year's appropriation is charged. Lapse period spending is charged to an appropriation from the fiscal year in which the liability arose. Payments made for items covered by these exceptions to Section 25 are made from a subsequent year's appropriation, and so are not counted as lapse period spending.

Why have Exceptions to Section 25?

The exceptions to Section 25 have been implemented as one method of handling a reasonable amount of recurring expenditures that otherwise could not be paid within the 2-month spending "window" that is available during the lapse period. For example, under current federal requirements, Medicaid providers are to be given 12 months from the date of service to submit billings. Furthermore, under the group health insurance program, beneficiaries are allowed up to two years in which to submit claims. Given these provisions, it is likely that a certain amount of each fiscal year's liabilities simply cannot be discharged by the end of the lapse period.

Although the number of programs that are covered by exceptions to Section 25 are limited, the amount of payments which can be issued is not. Between fiscal years 1990 and 1994, for example, the estimate of payments to be issued under the exceptions to Section 25 increased threefold, growing to $1.988 billion from $650 million. This growth was driven almost exclusively by increases in the amount of the prior year's Medicaid bills to be paid for from the following years' appropriations ($586 million in fiscal year 1990 versus $1.965 billion by the end of fiscal year 1994). Not coincidentally, the state's GAAP deficit widened by similar amounts over the same period, growing from $577 million in fiscal year 1990 to $1.595 billion in fiscal year 1994.

Section 25 Liabilities, FY 1990-97



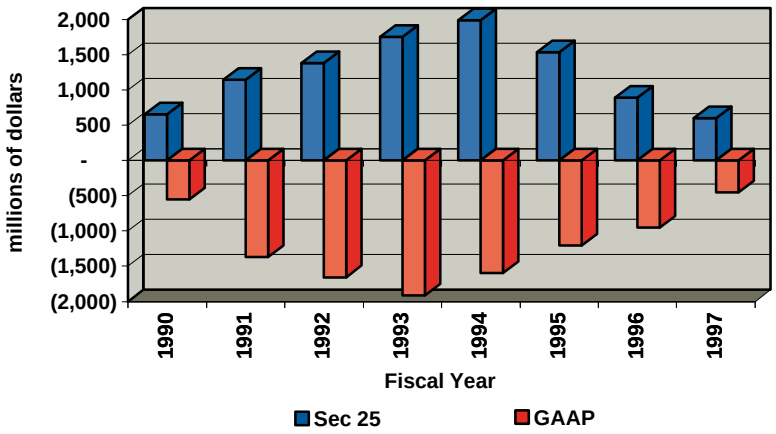
What Happened in Fiscal Year 1997?

As was the case in fiscal years 1995 and 1996, the driving force behind the change in liabilities covered by the Section 25 exceptions has been Medicaid. Section 25 Medicaid liabilities dropped by $226 million, or 80% of the overall decline. Since fiscal year 1994, estimated Section 25 Medicaid deferrals have fallen by $1.405 billion, (from $1.965 billion to $560 million). The turn-around in Medicaid liabilities can be traced to a significant increase in appropriations that occurred in fiscal year 1995. While the overall level of Medicaid appropriations has not changed much since then, the state has been successful in maintaining total Medicaid liabilities within that appropriation. As a result, Section 25 Medicaid deferrals have fallen to their lowest levels in the decade.

State group health insurance program liabilities, which cover both state employees and retirees, have been more volatile than Medicaid liabilities over the last eight years. Fortunately, however, they are also much smaller than the Medicaid liabilities. From fiscal year 1996 to 1997, there was a $59 million decline in Section 25 health insurance liabilities, or 20% of the overall reduction of $287 million.

As the chart below indicates, the movements of the Section 25 liabilities (which are essentially the changes in Medicaid liability) have been reflected in the state's GAAP deficit. While the widening of the GAAP deficit in the early 1990s closely matched the growth in deferrals under Section 25, the recent narrowing of that deficit has also tracked closely to the reductions in estimated Section 25 liabilities.

Section 25 Liabilities and GAAP Deficits



The changes in Section 25 liabilities over the past eight years contain a clear message for state finances. A certain amount of Section 25 liabilities can be considered part of the ongoing operations of the state. However, when an extraordinary amount of those liabilities is added to the new fiscal year's spending demands, the state's cash flow can be adversely affected. These strains can be aggravated by budgetary deficits that occur when the end of year available balance fails to cover that fiscal year's lapse period spending.

For example, in the early 1990s, Section 25 liabilities ranged from $1.1 billion to nearly $2 billion, with most of those amounts payable out of the General Revenue Fund. When added to the budgetary deficits that occurred in the General Revenue Fund over the same period, these uses of the next year's revenue to pay prior year's bills at times exceeded $2.0 billion and contributed to the General Revenue Fund's chronic inability to pay all of its bills in a timely manner.

On the other hand, fiscal year 1997 has seen a return of Section 25 liabilities to more "normal" levels. *Combined with the first budgetary surplus in eight years, the General Revenue Fund has been able to operate for the first half of fiscal year 1998 without having to hold back payments due to insufficient balances.* In fact, it could be argued that the only way to maintain an adequate end of year available balance is to keep Section 25 liabilities under firm control. If the state is to see continued improvement in its financial condition on a GAAP basis, then it will have to continue to keep Section 25 liabilities at manageable levels.

❑ The Road to Fiscal Health

From Record Deficits to a Small Surplus

By any measure, fiscal years 1991 through 1997 were tumultuous with record low points followed by record highs. Fueled by past budgetary practices, economic recession, and exploding medical costs, several dubious records were set over the period. These include:

- lowest single day available balance;
- lowest end-of-month available balance;
- lowest end-of-year available balance;
- highest level of unpaid bills on hand;
- highest level of lapse period spending;
- highest level of Section 25 deferrals;
- largest budgetary deficit;
- largest GAAP deficit; and
- five consecutive years of short-term borrowing for cash flow purposes.

Spurred by economic growth and improved budgetary control, the long climb back to fiscal health also included several noteworthy records established from fiscal year 1995 through the first half of 1998. These include:

- first, third, and fourth highest levels of annual revenue growth;
- largest one-year improvement in the budgetary deficit;
- largest one-year improvement in the GAAP deficit;
- largest drop in Section 25 deferrals;
- highest end-of-month available balance;
- highest end-of-year available balance;
- elimination of unpaid bills; and
- seven consecutive months of record end-of-month balances when compared to prior years.

The Illinois Office of the Comptroller classifies funds by major groups. By far the largest and most important group is the General Funds which includes the General Revenue Fund, General Revenue-Common School Special Account Fund, Education Assistance Fund, and Common School Fund.

For most purposes, activity in the General Funds is reflective of the State's overall fiscal health. However, it must be noted that the fiscal crisis that spanned most of the last seven years was concentrated almost entirely in the state's General Revenue Fund. This is not only the largest single fund, it is also the state's basic operating fund, funding at least a part of the operating budgets of every major agency.

Before fiscal year 1991, cash shortages in the General Revenue Fund were short-lived and were generally corrected within the next budget year. For most of the last seven fiscal years, however, the Comptroller's Office was not able to pay all General Revenue Fund bills as they were presented due to a lack of cash.

The seeds of this extended cash shortage were planted with the fiscal year 1990 budget — the first of three consecutive years where actual revenues fell far short of expectations at the time that the budgets were passed. During that year, 12-month spending from the General Revenue Fund exceeded revenues by $88 million, lapse period spending jumped by $161 million and the budgetary balance fell from a positive $7 million to a deficit of $242 million. This meant that 59.2% of the fiscal year 1991 revenue growth was needed to pay for fiscal year 1990 bills during the lapse period.

As a result of the jump in lapse period spending and slowing revenue growth, balances fell precipitously and unpaid bills (payables) began to accumulate in the Comptroller's Office by October 1990. By the end of December, payables stood at $179 million. The General Revenue Fund's financial condition continued to deteriorate and by the end of fiscal year 1991, payables totaled $305 million with an end-of-year available balance of $45 million.

With the carryover of payables, fiscal year 1991 General Revenue Fund lapse period spending increased by $192 million (to $746 million) and the budgetary balance plummeted to a record low deficit of $701 million consuming more than the new revenue growth for all of fiscal year 1992. Short-term borrowing ($185 million) in August 1991 did little more than slow the buildup of unpaid bills as fiscal conditions worsened with the deepening recession. Payables reached more than $800 million in April 1992 before falling to $331 million at the end of June. By that time, the available balance had fallen to only $3 million, the lowest end-of-year balance since at least 1960.

The carryover of payables pushed fiscal year 1992 lapse period spending to $831 million resulting in a new record budgetary deficit of $828 million. Although the fiscal year 1993 budget underestimated revenue growth for the year, the $676 million in new revenue still was not enough to cover the fiscal year 1992 deficit. After peaking at more than $900 million in April 1993, payables began to fall as the financial condition gradually improved. By the end of the year, payables had fallen to $224 million.

Financial conditions continued to improve during fiscal year 1994 and payables gradually declined on a year-over-year basis. By the last day of the year (June 30, 1994), payables dropped to zero for the first time since the fall of 1990. However, with balances too low to support everyday spending needs, payables grew again in July.

Record high revenue growth in fiscal year 1995 helped produce a dramatic reduction in payables throughout the year. Even with these improvements, however, payables were not eliminated until the final three days of the year.

Fiscal year 1996 produced the third highest level of revenue growth on record and the third consecutive year of shorter payment delays. For most of the year, payables were below the prior year and were eliminated by the end of the year. At the same time, the end-of-year available balance increased to $219 million, its highest level since the end of fiscal year 1990.

Although payment delays were common through most of fiscal year 1997, another year of stronger than expected revenue growth raised balances during the last half of the year and by the end of April, payables were elimi-

nated. By the end of June, balances had grown to record highs and have remained strong through the first half of fiscal year 1998.

What Lies Ahead?

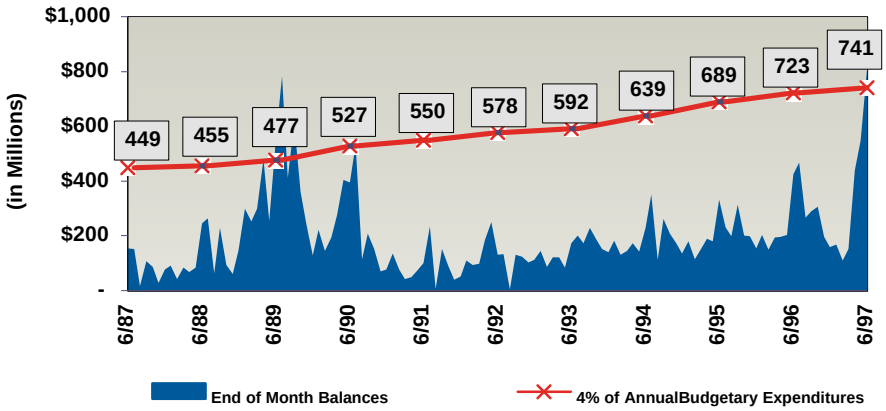
Although some use the end-of-year available balance to describe the state's financial condition, that balance is subject to any number of timing factors. At worst, the end-of-year available balance is representative of the fiscal status on only one day out of the 250 processing days each year. At best, it is one of several indicators that together present a more complete picture.

Under "normal" circumstances, the spending demands of state government are more or less evenly spread through the months of the fiscal year. Unfortunately, the same can not be said of revenues, which are more heavily skewed to the last half of the year (January through June). Typically, balances fall during the first half of the fiscal year, as spending outpaces revenues. During the last half of the year, balances typically recover to more acceptable levels. Because of this fact, it is necessary to enter a given fiscal year with balances high enough to weather the first half of the year without causing payment delays.

To accomplish this, future budgets will have to maintain higher working balances than those of the last seven years. While the magnitude of those balances is subject to debate, those involved in evaluating the fiscal health of governments generally believe that the ability to maintain working balances in the range of 4%-5% of annual budgetary expenditures indicates a strong fiscal position.

As evident in the following chart, the General Funds ending cash balance crossed over the 4% threshold for the first time since the early months of fiscal year 1990. It is probably no coincidence that, over the last 20 years, there have been only five years in which there has been a budgetary surplus, and those are also the only years in which the available balance was more than 4% of annual spending (including the lapse period).

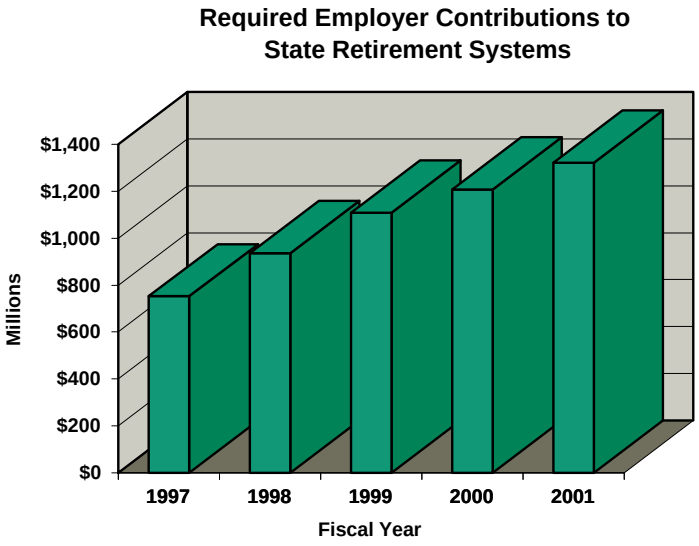
Comparison of General Funds Cash Balances and 4% of Annual Budgetary Expenditures



Future budgets will also have to contend with funding employee pensions and elementary and secondary education — funding that is now statutorily guaranteed.

In the past, erratic state funding of pension liabilities left the five state pension systems with a significant unfunded pension liability. Illinois began to seriously address these funding problems in fiscal year 1996 under a plan that established a formula for increasing the funded ratio to 90% over a fifty year period. In addition, the plan also provided for continuing appropriation authority to ensure that required pension contributions are made each year.

The result is a substantial increase in the required employer contribution to the pension systems. Another factor requiring additional employer contributions is a major upward revision in the State Employees Retirement System retirement formula effective January 1, 1998.



Actuarial projections of required employer contributions, which are largely from the General Funds, are for a 24.4% increase in contributions in fiscal year 1998, followed by an 18.5% increase in fiscal year 1999 with 9.0% and 9.3% increases for the succeeding two years.

In fiscal year 1997, the second year of the new funding legislation, state employer contributions totaled $752 million and met the statutory funding requirement. By fiscal year 2001, those contributions are expected to grow 75.6% to $1.3 billion.

Meeting in special session on December 2, 1997, the General Assembly passed extensive reform measures that will affect every aspect of Illinois' public education system, including educational programs, teacher certification, and major funding issues. Supplemental appropriations for fiscal year 1998 were approved to fund school construction projects and other capital projects in districts that meet enrollment criteria and demonstrate a sufficient level of need.

Legislation was also approved establishing a specific foundation level of per pupil funding considered to be necessary for students to receive an "adequate" elementary and secondary education. Supplemental appropriations for the current year (1998) will bring districts up to a foundation level of $4,100 per student. The level will increase to $4,225 in 1999, $4,325 in 2000 and, finally, $4,425 in 2001. In subsequent years, the General Assembly will determine the appropriate foundation level with advice from a newly created Funding Advisory Board.

A key element of the new plan was enactment of continuing appropriation authority to ensure that required payments to schools are made each year. The funding increases guaranteed under this plan are expected to be financed by growth in the state's base revenue and from several revenue measures enacted at the same time. These include higher taxes on cigarettes, telecommunications, and riverboats, as well as higher penalties for late filing or failure to file tax returns.

While school funding is guaranteed under this four year plan, the revenue necessary to finance the higher level of spending is not. In the event that base revenue growth and the higher taxes do not raise enough revenue, spending reductions in other areas may be necessary.

Another issue facing future budgets is controlling the spillover of liabilities from one year to the next. Although Section 25 liabilities appear to be largely under control, continued efforts will be required to keep deferrals from again becoming a budgetary black hole. This is especially applicable to the Medicaid program.

❑ *Rainy Day Fund*

While there is abundant good news about the state's fiscal condition, there remains nagging concerns about whether the state is adequately prepared to deal with the next financial cycle. One lesson to be learned from the difficulties of the last seven years is that it is easy to stumble into a fiscal crisis. Another is that it is far more difficult to dig out of the budgetary hole.

In a perfect world, revenue estimates and economic forecasts would be completely accurate and program liabilities would be easily controlled and known well in advance. In the real world, however, no system of estimating revenues and liabilities is perfect.

Obviously, no one wants to see the economy turn sour, but in and of itself, an economic slump is not the problem. The real problem is missing the slump in the forecast in the first place. If economic conditions occur as anticipated, the budget will still be sound, even in the middle of a recession.

The state entered the recession of 1991 with relatively high General Revenue Fund balances and no payment delays, yet state government was totally unprepared for what was to come. Over the next two years, state finances went from bad to worse with record low balances, lengthy payment delays and record high lapse period spending before beginning to improve toward the end of fiscal year 1993.

It has taken five consecutive years of budgetary improvement to bring the state to a strong financial footing . Although Illinois is in its best financial shape since 1989, it is still unprepared for another economic downturn.

Illinois is unusual among the states in that it has no provision for a rainy day (or budget stabilization) fund. The National Conference of State Legislatures reports that 45 states now have such funds. Illinois is the only major industrial state without some sort of budget stabilization fund.

Although the formulas used to determine deposits into and withdrawals from budget stabilization funds vary widely among the states, each has a common objective. During times of economic growth, revenue is set aside in these funds with the express purpose of providing a cushion to help states weather temporary fiscal emergencies. These states are simply following the common sense practice of putting money aside when revenue growth is healthy to help tide the state over during years of poor revenue growth.

By establishing reserves, rainy day funds provide more assurance that a budget plan can be accomplished and enhance budget stability. The existence of reserves reduces the likelihood that unexpected mid-year budget cuts will be needed and reduces the magnitude of such cuts if they cannot be avoided. Rainy day funds also provide a formal plan for dealing with revenue shortfalls rather than forcing ad hoc methods such as across the board appropriation cuts, delays in spending, or deferrals of obligations. In other words, rainy day funds do not take the place of budgetary discipline, they only provide the time necessary to make reasoned choices.

A rainy day fund can also serve as what economists call an automatic economic stabilizer. Revenues can be deposited into the fund during periods of strong economic growth and reinjected into the economy when an economic downturn causes revenues to lag.

In addition, a rainy day fund might reduce the interest the state pays on its bond issues. Bond rating agencies consider states with effective mechanisms for building financial reserves to be exhibiting fiscal discipline and preparedness for dealing with economic downturns. Although Illinois' bond ratings have been upgraded over the past year, analysts caution that the state's lack of reserves should be monitored closely.

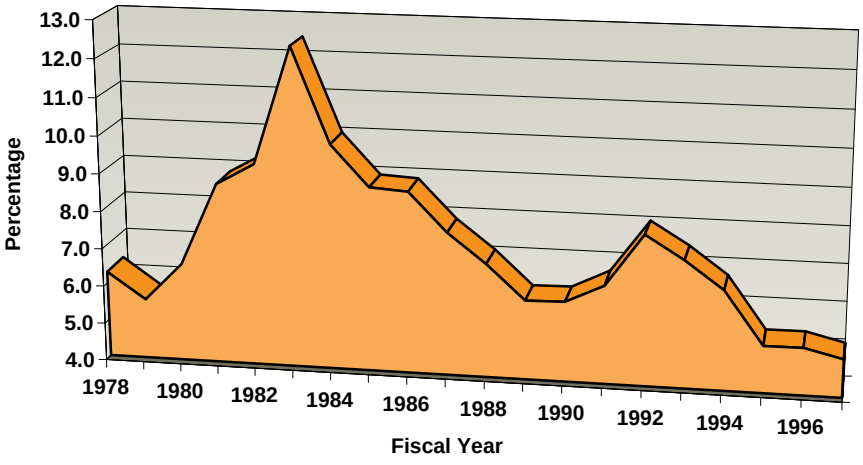
Economic cycles are inevitable. Illinois' lack of a Rainy Day Fund could mean that it will again suffer severe fiscal distress when that next economic downturn occurs.

According to most indicators, fiscal year 1997 was a banner year for the Illinois economy. Illinois' fundamentals remain strong going into fiscal year 1998, but a weakening international outlook, particularly in Asia, could have a negative impact on both the U.S. and Illinois economies.

Fiscal Year 1997

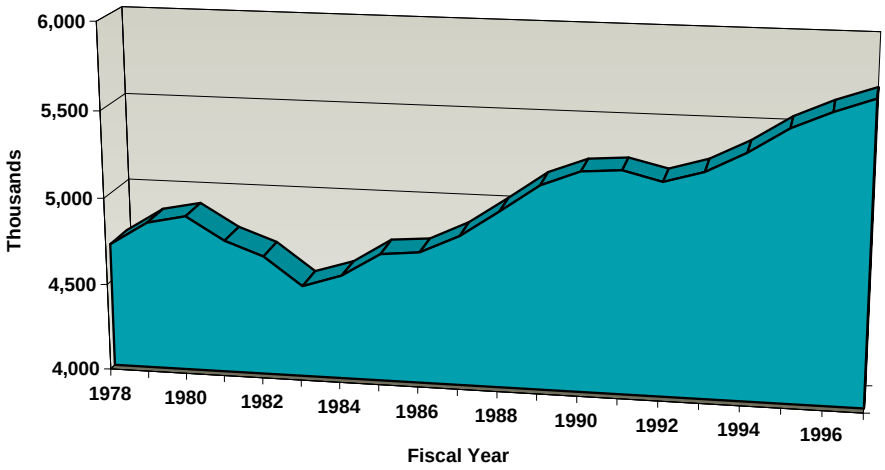
During fiscal year 1997, Illinois experienced healthy increases in employment and personal income. The Illinois unemployment rate averaged 5.0% during the year, the lowest since fiscal year 1974 when the average rate was 4.0%.

Illinois Unemployment Rate



Illinois' non-agricultural employment averaged 5.713 million workers in fiscal year 1997. This was an increase of 79 thousand jobs or 1.4% over fiscal year 1996 employment. Illinois has now experienced five consecutive fiscal years of employment growth. Over that period, Illinois has added 498 thousand non-agricultural jobs (a 9.5% increase).

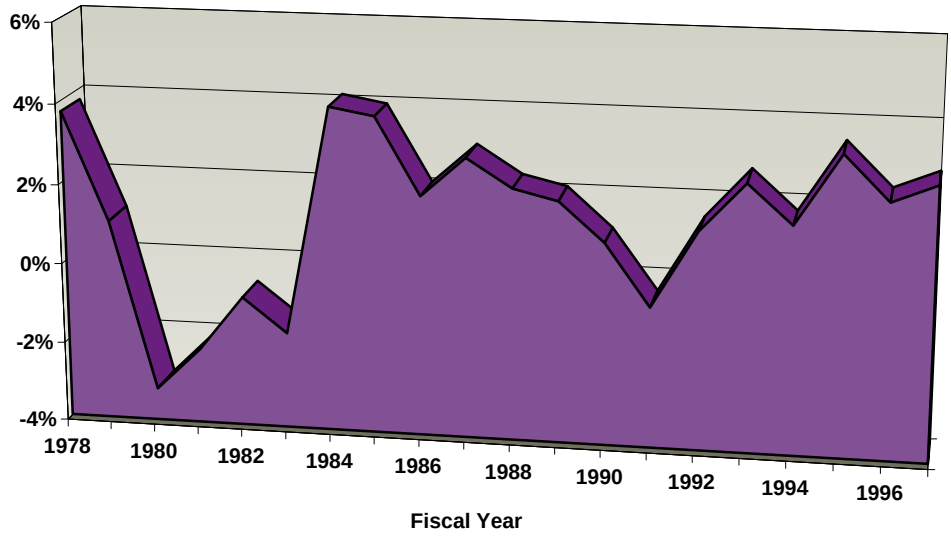
Illinois Non-Agricultural Employment



A more comprehensive measure of Illinois' economic performance is the increase in state personal income that includes wage and salary income, income earned by property owners, and transfer payments such as social security. Illinois personal income increased 5.7% in fiscal year 1997. The increase in personal income was 2.8% when adjusted for the 2.9% increase in the Consumer Price Index. This was the second largest increase in inflation adjusted Illinois personal income over the past ten years. This economic indicator has increased for six consecutive years and thirteen of the last fourteen years.

Within the highly competitive world economy, Illinois' continued healthy performance is the result of its strengths as a producer of goods and services. For example, merchandise exports attributed to Illinois, including both manufactured goods and agricultural commodities, have soared in recent years. In 1996, Illinois ranked second among the states in both corn and soybean production and fourth in hog production and ranked third in the value of its farm exports. Illinois' success in domestic and international trade results from

Change in Illinois Personal Income Adjusted for Inflation



having well developed transportation, merchandising, and financial infrastructures, a highly skilled labor force, and being home to a large group of academic and industrial research centers.

According to U.S. Census Bureau figures, exports attributed to Illinois increased 5.2% in fiscal year 1997 following a 12.3% increase in 1996 and a 25.7% increase in 1995. As a result, the value of exports attributed to Illinois in fiscal year 1997 was 48.5% greater than in 1994.

Fiscal Year 1998 and Beyond

Current international financial problems have raised concerns over the ability of the U.S. and Illinois economies to maintain steady economic growth over the next two years. The extraordinary drop in asset values and exchange rates for Asian countries should reduce Illinois exports and lead to increased imports in competition with Illinois products. For example, Asian countries have been major purchasers of Illinois feed grains and soybeans. Exchange rate declines significantly increase the local currency price of these commodities and are likely to lead to significant reductions in purchases. This would put downward pressure on prices unless there was offsetting growth in other demand sources.

Most economic forecasters see the international situation as slowing U.S. economic growth without causing a recession. The January 1998 forecast from the econometric model operated by DRI/McGraw-Hill expects the main impact of international financial problems to be in fiscal year 1999. Their base forecast expects the growth rate for real U.S. Gross Domestic Product to decline from 3.3% for fiscal year 1998 to 1.6% for fiscal year 1999 and 2.0% for fiscal year 2000. The average national unemployment rate is expected to increase from 4.7% for fiscal year 1998 to 5.1% for fiscal year 1999 and 5.5% for fiscal year 2000. However, they also think there is a 25% probability of a more pessimistic scenario where there will be a sharper slowing in the rate of growth of the U.S. economy.

SERVICE EFFORTS AND ACCOMPLISHMENTS (SEA) REPORTING

In April 1997 the Governmental Accounting and Standards Board (GASB), which establishes accounting principles and financial reporting standards for state and local governments, designated Illinois the first official 'experimentation site' for service efforts and accomplishments (SEA) reporting. GASB's initiative was consistent with the mission of the Comptroller's Office: "To provide *quality fiscal information* for the purpose of promoting the integrity of public policy decisions....." Information on the results of government spending is the necessary and missing element in improving the quality of the state's fiscal information.

The intent and purpose in this first year of experimentation is to introduce the concept of SEA reporting for the first time in the state's 1997 financial reports. A first-year, experimentation and introductory initiative immediately gives rise to a number of questions, the most important of which are highlighted below:

- what is SEA reporting;
- why SEA reporting is important;
- the components and characteristics of SEA reporting;
- the nature of Illinois' experimentation initiative; and
- the longer-term issues involved in SEA reporting.

Introduction to SEA Reporting

Imagine if a major, publicly-held, $35-billion U. S. corporation were unable to provide substantive information on its performance during the past fiscal year. Hundreds or thousands of stockholders would be left wondering about how sales, corporate earnings, profit margins, return-on-equity, and similar critical measures of overall corporate performance fared during the past year. In such a scenario investors would pummel the stock, corporate valuation would plummet, investigations would be launched, and major officers or directors would be forced to resign. A new corporation in this situation simply would not even qualify for financing in the public debt or equity markets.

While there are differences, to be sure, this is a reasonable, though somewhat exaggerated, description of the current status of year-end financial reporting in state and local governments. Because the ultimate purpose of a for-profit enterprise is to increase wealth or value for owners, the corporation uses financial and profitability measures to demonstrate its performance. But profit is not state government's purpose. Rather, it seeks to improve situations or conditions through the services it provides. It is not unreasonable to conclude, therefore, that the efficiency and effectiveness of its service delivery are the logical measures of government's performance.

Government financial reports have traditionally provided vital financial information such as revenues available, expenditures, assets, liabilities, etc. But these reports presently do not enable the reader to determine what government spending has accomplished. The financial information provided in these reports on government spending is essential, but financial measures alone can never adequately support policy decision-making or accountability for performance and results in the public sector. In a word, this is the purpose of SEA reporting.

SEA, an acronym for 'Service Efforts and Accomplishments,' is the accounting profession's terminology for measures of government performance and results. SEA reporting provides information to assist users in assessing the service efforts, costs, and accomplishments of the governmental entity. It reports the results

of government programs (e.g., the number of lane-miles of road repaired, the employment placement rate for welfare recipients, changes in students' test scores, etc.) and links these results with financial data to help assess the efficiency of government services. SEA information seeks to answer the question, "What did government spending accomplish?"

Importance of SEA Reporting

According to GASB, the purpose of governmental financial reporting is to provide information which helps users assess the performance of the governmental entity. Accountability is the primary objective of financial reporting. The federal government's General Accounting Office has stated:

> The need for accountability has caused a demand for more information about government programs and services. Public officials, legislators, and citizens want and need to know whether government funds are handled properly and in compliance with laws and regulations. They also want and need to know whether government organizations, programs, and services are achieving their purposes and whether these organizations, programs, and services are operating economically and efficiently.

And as early as 1973 the American Institute of Certified Public Accountants (AICPA) stated:

> An objective of financial statements for governmental and not-for-profit organizations is to provide information for evaluating the effectiveness of the management of resources in achieving the organization's goals. Performance measures should be quantified in terms of identified goals.

If this is a purpose of government financial reporting, then it is failing in its present state of development because there is currently little or no information in financial reports on how well government is performing in achieving its primary goals. SEA reporting provides information on government's performance in improving the situations or conditions which it is charged to address. As such, it forces a discussion of the most fundamental questions about government service delivery (how much was spent on various services or products, what were the results, how efficient was this government spending, etc.). SEA reporting is thus an essential part of the information needed for accountability generally and financial reporting specifically. In the absence of SEA information, government financial reports are simply incomplete.

Recognizing this, GASB launched a long-term initiative aimed at advancing the use of SEA information in government financial reporting. In 1985 GASB sponsored a nationwide research project on SEA reporting in 12 significant program areas for state and local governments. In 1987 GASB's Concepts Statement No. 1, *Objectives of Financial Reporting*, significantly expanded the concept of financial reporting beyond traditional practice by adding the objective "to assist users in assessing the service efforts, costs, and accomplishments of the governmental entity." In 1994's Concepts Statement No. 2, *Service Efforts and Accomplishments Reporting*, GASB explicitly recognized that there has been little voluntary movement toward SEA reporting and that, unless required, it is unlikely that SEA information will be available to most users. Since then the Board has been promoting extensive state and local government experimentation in selecting SEA indicators, gathering SEA information, and reporting this information both internally and externally.

Toward this end, for the first time in Illinois, the

Comptroller's Comprehensive Annual Financial Report (CAFR) for fiscal year 1997 introduced experimental SEA information on select aspects of Illinois state government. These included higher education, the Healthy Moms/Healthy Kids Program, state employment training programs, elementary and secondary education, the welfare-to-work initiative, the Capital Development Board, state pension systems, the Child Support Enforcement Program, and the Departments of Revenue and Transportation.

The long-term objective of this experimentation initiative is to provide more complete information about state government's performance than has been possible in the traditional financial statements and schedules. If Illinois' experiment is successful, SEA reporting will assist users in assessing the economy, efficiency, and effectiveness of services provided and will be a significant improvement in financial reporting for Illinois state government.

Components/ Characteristics of SEA Reporting

Components of SEA Reporting. Based on its extensive research to date, GASB has identified the various categories and types of measures necessary and appropriate to SEA reporting, and these are summarized below:

- **Measures of Efforts** - These are measures of the financial and non-financial resources applied in providing services, usually referred to as **inputs** (e.g., total costs, number of personnel, employee-hours, equipment or material used, etc.). They seek to answer the question, "What resources were consumed or what was the cost of providing the service?" They may include measures of the demand for the service (e.g., total population served). Additionally, the use of ratios (e.g., teachers per student) solves the problem of different wage and benefit structures in comparisons with other jurisdictions.

- **Measures of Accomplishments** - These measures indicate what products or services were delivered with the resources used, as well as the results of providing those products or services. **Outputs** define the number of units produced or services provided by a program (e.g., the number of students enrolled or clients served). **Outcomes** define the results achieved, at least in part, because of the services provided (e.g., percentage of lane-miles of road maintained in a certain condition, change in students' test scores, etc.). Measures of accomplishments include both quantitative and qualitative measures.

- **Measures Relating Efforts to Accomplishments** - Usually referred to as **efficiency or cost-effectiveness** measures, these are measures of the cost (in dollars or employee-hours) per unit of output or outcome (e.g., cost per lane-mile of road repaired, cost per student graduated, etc.).

- **Explanatory Information** - This includes general information about the environment and other factors that provides background or context for understanding the organization's performance measures. Examples might include changes in economic conditions or percentage of low-income students served in the case of schools. It may include factors both within and outside of the governmental unit's control, and the information may be quantitative or narrative. The purpose is to provide information which will help users understand the SEA measures reported and assess the extent to which such factors may have affected the organization's performance.

Characteristics of SEA Information. Assessments about the performance of government programs will only be as accurate as the information on which those assessments are based. This implies the need for some 'quality control' in the generation of SEA data, and GASB has identified six characteristics necessary for reasonably assuring the quality of SEA information:

- **Relevance** - In view of the fact that the number of measures is almost unlimited, the measures selected should be those which speak most effectively to the performance being measured.

- **Understandability** - If they are to be readily understandable by the majority of users, SEA measures should be as simple as possible and reported as clearly as possible.

- **Comparability** - Because a number which stands alone is almost meaningless, there is a need for some context within which to evaluate SEA measures (e.g., measures over a period of time, against the organization's goals or targets, against some established norm or standard, or comparisons with other jurisdictions).

- **Timeliness** - If it is to be useful in assessing performance and making policy or program decisions, SEA information must be timely.

- **Consistency** - While it may be assumed that measures will be modified or eliminated as new information or better measures become available, both the measures and reporting of SEA information should be relatively consistent over time if it is to provide any basis for comparative analysis.

- **Reliability** - Reliability means that the data are objective, verifiable, and reasonably representative of what they purport to measure. It implies the need for some standards comparable to those used in reporting financial information.

Illinois' SEA Experiment

As noted above, this is the first year of Illinois' experimentation with SEA reporting. The primary purpose in this first year is to introduce the concept of SEA reporting to readers of Illinois' financial reports. By definition, then, this first year's effort is somewhat limited in scope. Nevertheless, within this broader purpose and limited scope, the Comptroller's Office set a number of specific objectives for its experimentation initiative. Following this narrative are several exhibits selected from the 1997 CAFR designed to demonstrate and highlight:

Examples of SEA Measurement in Illinois State Government. The long-term aim is the integration of SEA measures into the state's financial reporting. Fully achieving this goal will require several years' of further work and experimentation. However, the Comptroller's Office recognized that any number of state agencies and programs already have developed and are using performance and results measures, even though these may not previously have been incorporated into the financial reporting process. One objective was to demonstrate SEA reporting using some real examples of SEA-type measures readily available in state agencies and programs. Following this narrative are several, select examples of SEA measures currently being used by a number of agencies or programs.

It should be noted that the examples presented in the exhibits (as well as in the CAFR itself) are not intended to be a comprehensive or ideal

model of SEA reporting. Consistent with this year's purpose on introducing the concept, they are representative indicators, selected to demonstrate the types of information and alternative methods of presentation possible in SEA reporting.

Alternative Models for SEA Analysis. One of the challenges in SEA reporting is determining the level of government appropriate for SEA measurement and analysis. Measures for state government in the aggregate would be meaningless and unrealistic, while measures for every discrete program or unit of state government would be overwhelming. Performance measurement at the agency level may be appropriate, especially when the mission and activities of an agency are reasonably focused and coherent (e.g., tax collection agencies might be an example). Some discrete programs may be so large or important that they alone warrant performance analysis. When possible, it would also be useful to gauge the performance of major functions of government, which may subsume more than one program or agency (e.g., public safety).

As part of this demonstration, the Comptroller's Office wanted to exemplify a mix of reporting levels or models. Accordingly, the exhibits include examples of SEA reporting at the levels of an agency (Board of Higher Education beginning on page 49), a program (Healthy Moms/Healthy Kids beginning on page 55), and a major government function (State Employment and Training beginning on page 59). This last model is of particular relevance to GASB and its goal of attempting to develop 'common' measures.

Examples of the Full Range of SEA Measures. There is general recognition of the reality that government performance measures tend to emphasize outputs (those various activities it carries out), and that there is a need for greater emphasis on outcome and efficiency measures. This situation is prevalent in government performance reporting generally and not unique to Illinois. Nevertheless, a specific objective of this demonstration was to include examples of each of the types of SEA measures described above (i.e., inputs, outputs, outcomes, and efficiency or cost-effectiveness).

There are a number of good examples throughout the exhibits, but the following are especially worth noting: the input indicators for elementary and secondary education beginning on page 65 and the output, outcome, and efficiency indicators in Higher Education and State Employment and Training beginning on pages 49 and 59 respectively.

Comparative SEA Reporting. Stand-alone SEA measures provide little understanding of performance — it is the contextual framework and comparative references which give meaning to performance data. These references may include comparisons over time, comparisons against the organization's own goals or targets, comparisons with other jurisdictions or similar programs, or comparisons against some established standard or benchmark. This experiment sought to demonstrate a number of these comparisons.

Alternative Methods of Presentation. SEA reporting should use a variety of presentation techniques. Not only are some techniques more effective in some situations than others, but the variety also makes for a more aesthetically pleasing report. Accordingly, the reader will find in the exhibits a variety of approaches to presenting performance information, including narrative descriptions, tabular presentations, charts, and graphs. The Healthy Moms/Healthy Kids program beginning on page 55 relies much more heavily on a narrative format. The tabular presentation of outcome data in Higher Education beginning on page 49 is very effec-

tive in presenting a substantial amount of data efficiently, providing data for an extended period of time, and highlighting important outcome indicators.

Issues in SEA Reporting. Any effort to define and describe performance results in government will inevitably give rise to a number of issues, technical and other. In fact, one of the purposes of the experimentation which GASB is encouraging is to surface these issues and devise appropriate responses for addressing them. The Comptroller's Office fully expected to be confronted with such issues as part of its 'real-world' experimentation with SEA reporting. Some of the major issues arising in SEA reporting are summarized in the following section.

Longer-Term Issues in SEA Reporting

While there is general recognition that relevant data and information on the performance of government programs is necessary for full accountability, securing agreement, developing the measures, and collecting the necessary data has not been easy or without controversy. Between the extremes of those who think it's not possible to measure government's results and those who would demand perfection in performance measurement, there are ample reasons (or excuses) for not reporting service efforts and accomplishments. However, taxpayers are not likely to accept these reasons, and the answer probably lies somewhere in the middle of these two extremes.

At the same time, the debate and controversy give rise to any number of legitimate and difficult issues which continue to persist and must be acknowledged. Again, the primary purpose of GASB's experimentation initiative is to surface and address as many of these issues as possible before GASB issues an authoritative SEA requirement in financial reporting. These issues were apparent already in this year's introduction of SEA reporting in Illinois and will have to be addressed in any longer-term strategy for SEA reporting. Some have already been cited above, but the major issues are summarized below.

Accounting for Exogenous Variables. The issue here is the impact of 'environmental' factors — those factors outside the bounds of government program operations — on government performance results. Numerous environmental factors affect program performance. A booming economy should make it easier to place employment training participants in jobs. Climatic variations such as unusually harsh winters will increase the cost of road maintenance. A high proportion of low-income students may influence educational achievement levels. This issue is especially important when using inter-jurisdictional comparisons. Clearly, environmental factors must be considered in reporting the performance of government programs, and this is the reason GASB includes 'Explanatory Information' as one of the necessary components in SEA reporting.

Causation. Closely related is the issue of causation in performance, i.e., whether it can be demonstrated that government policies or programs actually cause or influence the resulting performance. It is human nature to claim credit for positive results and to attribute poor results to 'other' factors beyond one's control.

On one level, SEA data may help explain changes in performance results. For example, it is logical to assume that outputs increase when inputs (funding) also increase. A higher level of inputs 'caused' the higher level of outputs. When performance indicators are reasonably comprehensive (i.e., service efforts are coupled with service accomplishments), government

managers, elected officials, and taxpayers are empowered to ask any number of related questions. How do outputs and outcomes correlate with changes in the resources available? Do they track, and, if not, why not? What happened to service quality during these funding changes? Did the quality of service improve with additional resources or deteriorate because the infusion of additional resources may have been too much too quickly? Has the program maintained or improved its efficiency or has efficiency slipped as a result of an increase or decrease in funding? How do these measures compare with others, especially nationally funded programs, all of which may be experiencing funding increases or decreases at the same time?

On an entirely different level, however, SEA data may not provide any insight into causation, and it is arguable whether they should. In fact, one major purpose of SEA reporting is to stimulate debate about relative levels of government performance and the reasons for that performance. This issue only emphasizes the importance of the reliability and validity of SEA indicators and measures — whether they measure what they purport to measure.

Capturing Relevant Cost Data. Program costs are a necessary component of efficiency or cost-effectiveness measures: without cost data or information it is impossible to determine the efficiency, cost-effectiveness, or productivity of a program. Because cost information is not available for some programs, efficiency or cost-effectiveness measures are also not available in this report. For a variety of methodological reasons (e.g., what costs to include, how to allocate administrative costs, etc.), capturing real program costs may prove difficult. As an example, government financial systems are typically designed to capture cost data by fund, appropriation, or object of expenditure, not by program, function, or activity. If the methodological challenges can be resolved within the bounds of existing information technology and at reasonable costs, efficiency or cost-effectiveness measures would significantly improve both the quantity and quality of SEA information available.

Comprehensiveness and Consistency of Reporting. The comprehensiveness issue speaks to the question of how broad and detailed coverage of SEA reporting should be. Consistency of reporting implies that agencies will report the same or similar SEA information over several time periods in a reasonably similar format. Central to this issue is what kinds of and how much information is necessary to meet the test of accountability. Even Illinois' limited experience suggests several possible answers. One is to explicitly acknowledge the differences between internal management information needs and external information needs, the former presumably being much more detailed than the latter. A second possibility is to seek the advice and preferences of external stakeholders regarding their information needs. Finally, a selective use of SEA reporting may offer some value. This might involve rotating SEA reporting for government agencies and programs though some multi-year cycle or selecting high priority issues and functions (e.g., importance to state spending) for SEA reporting.

Timeliness and Comparability of Data. The timeliness of SEA data has already been cited in the characteristics above. Several additional points are worth noting. Governmental units strive to issue financial reports as soon as possible after the close of the fiscal year. There often is a time lag in the collection of performance data. Unless the compilation of financial and programmatic data can be more closely aligned, linkages with the GAAP financial reporting process will be difficult. The challenge of data timeliness and comparability is exacerbated when attempting to make comparisons

with other jurisdictions such as other states or the nation. Here the time lag is even longer, and reporting periods may not be comparable (e.g., a federal fiscal year or calendar year as opposed to the state's fiscal year). Several examples in Illinois' CAFR this year demonstrate the importance of this issue.

System Performance vs. Institutional Performance. In some functional areas like education, there is a major issue in state-level SEA reporting which requires much more consideration, debate, and experimentation. This issue, raised by officials within the educational bureaucracy itself, is whether state-level SEA reporting should focus on the aggregate data of the state's educational system (inputs, outputs, outcomes, and efficiency measures of the system taken as a whole) or whether its emphasis should be on the performance, effectiveness, and efficiency of the system's governing authority (in this case, the Board of Higher Education). In the latter instance, SEA reporting would focus on how effective the state educational agency is in moving the educational system to improve its results.

On the one hand, some would argue that aggregate data on the educational system taken as a whole tend to mask significant differences at lower levels and that measures of performance such as cost per student or student achievement levels are ultimately meaningful only at the institutional level (i.e., a specific school). (Individual educational institutions are, after all, governed by local boards and administrators.) On the other hand, a focus on the governing agency would yield a very different set of indicators (e.g., issue development and policy implementation, effectiveness of grant administration, system-wide cost savings, etc.). Some combination of the two may be the appropriate course, but this remains an open question.

A Final Note

In reviewing the SEA exhibits which follow, including both the performance indicators and the data measuring those indicators, readers should again bear in mind that Illinois' SEA report this year is an experimentation initiative, designed to introduce and demonstrate key elements of SEA reporting.

There is no intent to imply the comprehensiveness of this report, in terms of either the government functions or performance measures included. While the information is based on real data collected and maintained by state agencies and programs, the definition and measurement of performance indicators is in its developmental stages in many agencies. The issues of data timeliness and consistency have already been discussed above.

Conclusions about the performance of any agency or program, based on an experimental initiative such as this, would be unwarranted. As is the case in any attempt at developing, measuring, and reporting SEA indicators, some approaches which initially appear promising may have to be abandoned for any variety of reasons (e.g., validity of the indicators, reliability of the data, methodological problems, etc.). Issues remain to be resolved. In the final analysis, this is GASB's intent and purpose for SEA experimentation.

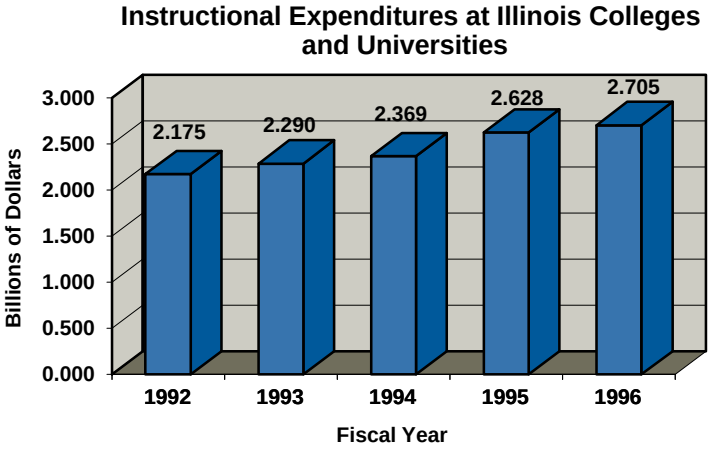
Illinois' higher education system consists of 184 degree-granting institutions, of which 12 are public universities, 49 are community colleges, 103 are private, non-profit universities and colleges, and 20 are proprietary schools. In addition to degree and certificate programs, these institutions deliver programs of developmental and remedial instruction, continuing education, personal enrichment, technical or vocational training, and a variety of community and other services.

The Board of Higher Education is the coordinating and planning entity for higher education. In this capacity it is responsible for planning and policy development, budget development, program approval and review, operating and degree-granting authority for private institutions, grant administration, and information systems development.

The Board of Higher Education collects and maintains huge amounts of data, much of which is appropriate for external reporting of service efforts and accomplishments. Many of these SEA measures are also reported in other forums. The following indicators and data are not intended to represent a comprehensive set of measures either recommended for higher education generally or maintained by the Board of Higher Education specifically. The indicators and measures selected for this report are intended only to exemplify some of the elements and characteristics of service efforts and accomplishments reporting as applied to higher education in Illinois. All data have been provided by the Board of Higher Education.

❑ *Inputs*

Expenditures and Staffing. There is considerable information available on the basic inputs to higher education: resources available in terms of funding and staffing. Total instructional expenditures at Illinois colleges and universities increased from $2.2 billion in 1992 to $2.7 billion in 1996, a 24.4% increase over the five-year period. From the five-year period of 1991 to 1995, total staff increased only 1.7%. Faculty increased 4.4%, with the overwhelming



Illinois Higher Education Staffing

Employment Classification and Status	Fall 1991	Fall 1993	Fall 1995	Fall 1991 to Fall 1995 Change	Fall 1991 to Fall 1995 Percent Change
Faculty	58,831	60,107	61,423	2,592	4.4 %
Full-time	24,069	24,377	24,589	520	2.2
Part-time Faculty	34,762	35,730	36,834	2,072	6.0
Part-time Faculty	21,246	20,844	21,958	712	3.4
Instruction/Research Assistants	13,516	14,886	14,876	1,360	10.1
Executive, Administrative, Managerial, and Other Professionals	28,346	28,334	28,951	605	2.1
Full-time	24,302	23,909	24,972	670	2.8
Part-time	4,044	4,425	3,979	(65)	(1.6)
Support Staff*	47,373	46,599	46,415	(958)	(2.0)
Full-time	37,134	36,443	36,205	(929)	(2.5)
Part-time	10,239	10,156	10,210	(29)	(0.3)
Total Staff	134,550	135,040	136,789	2,239	1.7 %
Full-time	85,505	84,729	85,766	261	0.3
Part-time	49,045	50,311	51,023	1,978	4.0

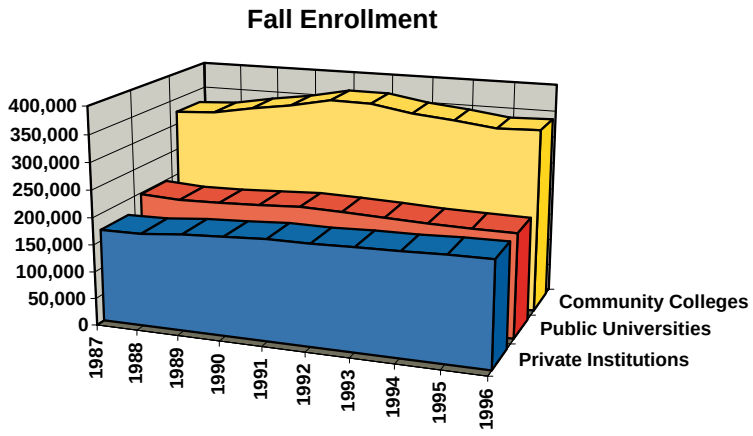
* Includes technical and paraprofessionals, clerical and secretarial, skilled crafts, and service and maintenance.

majority of that increase in part-time staff (6.0%) generally, and instruction/research associates specifically (10.1%). Support staff actually declined by 2.0% during this same period.

Multi-year data enable an assessment of how staffing has changed both in terms of composition and over time. Much more detailed data is also available on funding. Additionally, the above funding data are current dollars. If such data were also provided in constant (inflation adjusted) dollars, a more accurate assessment of real funding patterns would be possible.

❑ *Outputs*

Total Student Enrollments. Total student enrollment in Illinois' higher education system increased from 1987 to a peak of 756,183 students in 1991. Since then, enrollment has declined until rebounding slightly to 724,815 students in 1996. Enrollments at private institutions increased steadily over the period (up 4.8%), while enrollments at public universities and community colleges fell 7.7%. According to the U. S. Department of Education, in 1955 total Illinois student enrollment in higher education was 152,723.

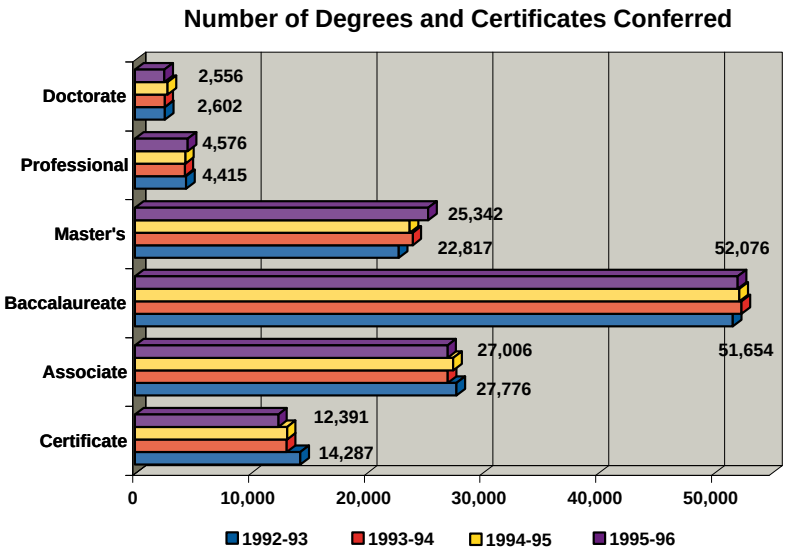


Comparative Changes in Funding and Enrollments. Bringing together both funding and enrollment information, the following table indicates results over ten-year periods for each. This table also demonstrates the usefulness of comparisons with other jurisdictions.

Comparison of Ten-Year Percent Change
Higher Education Enrollments and State Tax Appropriations

State	% Change in State Tax Funds FY 1988 - FY 1998	% Change in Enrollments Fall 1985 - Fall 1995
Nevada	159.2 %	55.4 %
Mississippi	102.2	21.3
Arkansas	91.1	26.3
New Mexico	84.5	49.2
Utah	82.7	44.3
Nebraska	82.4	18.4
Georgia	82.2	59.9
Idaho	78.4	39.6
Oklahoma	72.4	6.8
Illinois	**68.9**	**5.6**
Iowa	68.4	13.7
Missouri	66.7	21.4
Florida	64.5	41.2
South Dakota	63.6	12.0
Arizona	60.6	26.3
Texas	59.5	23.8
Oregon	57.5	21.1
North Carolina	56.3	13.7
Kansas	55.7	25.7
Washington	55.4	23.4
Indiana	54.7	15.6
Delaware	53.1	32.7
West Virginia	48.6	12.2
North Dakota	48.4	6.5
Colorado	47.7	50.5
Ohio	47.3	5.0
Louisiana	46.8	15.1
Pennsylvania	46.2	16.2
Alabama	45.5	25.8
Kentucky	44.9	26.2
Minnesota	44.7	27.0
Hawaii	43.3	21.9
South Carolina	42.8	32.0
Maryland	42.5	15.1
Tennessee	42.0	26.1
Wisconsin	41.9	9.1
Michigan	40.3	8.1
Connecticut	39.4	(1.0)
New Jersey	39.3	12.2
New Hampshire	32.8	23.0
Maine	31.5	8.3
Virginia	25.9	21.7
California	24.8	10.1
Wyoming	17.9	24.7
Rhode Island	17.7	6.0
Montana	14.8	18.7
Vermont	14.0	11.6
Alaska	12.3	6.8
Massachusetts	1.3	(1.8)
New York	(0.8)	4.1
District of Columbia	N/A	(2.0)
United States Total	43.6	16.2

Degrees and Certificates Awarded. Another basic output for higher education is the number and types of degrees and certificates earned. In the 1995-1996 academic year, Illinois colleges and universities awarded a total of 123,947 degrees and certificates. The chart on the right illustrates these results for Illinois' higher education system over four academic years. It is readily apparent that, while certificates awarded have declined notably (down 13.3%), master's degrees have increased correspondingly (11.1%).



❑ *Outcomes*

Retention/Graduation Rates. A common and important outcome measure of higher education systems is the retention/graduation rate because it is a measure of the system's success in retaining students until they complete their degree objective. The table, which includes a significant amount of information on what happened to freshmen after their year of enrollment, is the Board of Higher Education's report on these outcomes for Illinois' public universities. From 1983 to 1991, Illinois' public universities enrolled 211,200 first-time freshmen and awarded baccalaureate degrees to 116,722 or 55.3% of the enrolled freshmen. As of the end of the 1990-1991 academic year, 63.1% or 133,351 of the freshmen enrolled over this time period either had earned a degree or were still enrolled. During this same time period 77,849 or 36.9% of the enrolled freshmen neither had earned a degree nor were still enrolled.

Degree Attainment, Enrollment Status, and Non-Persistence Among Illinois Public University First-Time Freshmen

First-Time Freshmen Entering Year	N	Baccalaureate Degrees Awarded [1] N	%	Still Enrolled [2] in 1994-95 N	%	Cumulative Percentage of Baccalaureate Recipients and Still Enrolled %	Freshmen Neither Earning a Degree nor Still Enrolled N	%
1983-84	26,236	14,681	56.0 %	710	2.7 %	58.7 %	10,845	41.3 %
1984-85	26,324	14,844	56.4	817	3.1	59.5	10,663	40.5
1985-86	27,308	15,484	56.7	1,113	4.1	60.8	10,711	39.2
1986-87	26,927	15,583	57.9	1,234	4.6	62.5	10,110	37.5
1987-88	26,846	15,459	57.6	1,622	6.0	63.6	9,765	36.4
1988-89	26,046	15,054	57.8	1,980	7.6	65.4	9,012	34.6
1989-90	26,071	13,895	53.3	3,240	12.4	65.7	8,936	34.3
1990-91	25,442	11,722	46.1	5,913	23.2	69.3	7,807	30.7
Total	211,200	116,722	55.3 %	16,629	7.9 %	63.1 %	77,849	36.9 %

[1] Baccalaureate degree may have been awarded by any public university.
[2] Enrolled in either fall or spring semesters at either a public university or community college.

Employment Outcomes. Illinois' higher education system uses data from surveys of graduates to determine other outcomes. Primary among these are employment measures.

The table on the following page illustrates just how much information can be presented effec-

EMPLOYMENT PATTERNS (all figures percentages unless indicated)	1994 Graduates One Year After Graduation			1988 Graduates Five Years After Graduation			1984 Graduates Ten Years After Graduation		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Current Employment Status									
Full-Time	80	75	77	92	83	87	92	75	83
Part-Time	7	12	10	4	9	6	4	12	8
Not Employed, but Seeking	4	5	5	3	3	3	1	2	2
Not Employed, not Seeking	8	9	9	2	6	4	3	11	7
Primary Employer									
Self-Employed	5	5	5	6	5	6	11	10	10
Business	50	35	42	54	38	45	48	37	43
Professional Firm	10	6	8	12	7	9	10	7	8
College/University	5	5	5	4	5	5	4	6	5
Elementary/Secondary School	6	21	14	4	18	11	6	15	10
Not Employed, not Seeking	3	10	7	4	13	8	6	10	8
Health Agency	9	6	8	9	8	8	10	8	9
Government	6	1	3	3	1	2	3	1	2
Armed Services	5	11	9	4	7	6	4	5	4
Place of Employment (all respondents)									
In Illinois	57	66	62	60	66	63	57	56	56
Urban Areas Bordering Illinois	4	3	3	5	4	5	4	4	4
Out-of State	39	31	34	35	30	32	40	40	40
Place of Employment (full-time workers only)									
In Illinois	67	77	72	64	72	68	59	64	62
Urban Areas Bordering Illinois	4	4	4	5	5	5	4	5	4
Out-of State	30	19	24	31	23	27	36	31	34
Relation of Current Job to Bachelor's Degree Major									
Closely Related	45	49	48	44	49	47	44	48	46
Related	30	28	29	34	30	32	34	30	32
Unrelated by Choice	12	10	11	16	14	15	16	16	16
Unrelated Not by Choice	11	11	11	6	6	6	6	5	5
Unrelated (no further response)	1	1	1	1	1	1	1	1	1
Satisfaction with Current Job									
Very Satisfied	43	41	42	39	39	39	45	43	44
Satisfied	43	44	44	50	49	50	47	49	48
Dissatisfied	10	11	11	9	10	9	7	7	7
Very Dissatisfied	3	4	4	2	2	2	1	2	1
Average Annual Income									
All Respondents	$ 27,000	$ 22,000	$ 24,000	$ 35,000	$ 28,000	$ 31,000	$ 46,100	$ 35,000	$ 41,000
Full-Time Employed	$ 28,000	$ 23,000	$ 25,000	$ 36,000	$ 29,000	$ 32,000	$ 48,000	$ 37,500	$ 43,000

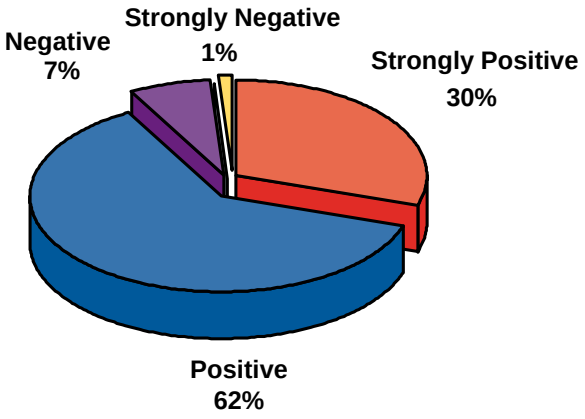
Column percentages may not total 100% due to rounding.

Represents highest value in category.

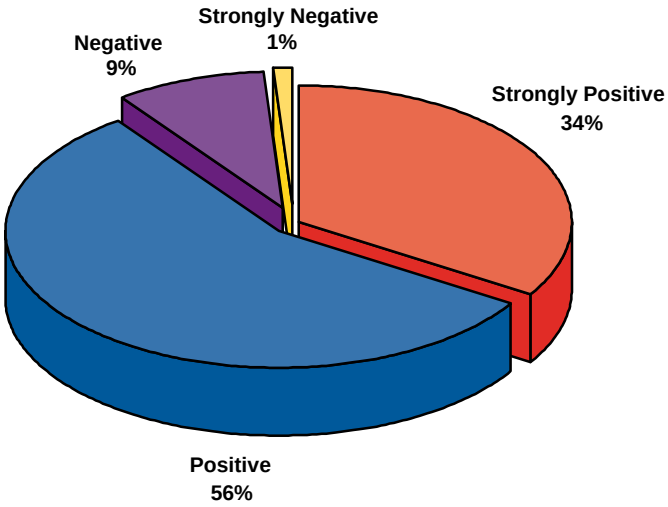
tively and efficiently in tabular format. And while all of the data are not reported here, these surveys provide a substantial amount of additional information, which the Board of Higher Education also disaggregates by several characteristics (income levels, educational program, race/ethnicity, etc.).

Satisfaction Ratings. Another outcome measure derived from the survey data is former students' perceptions of their educational experience. In its internal reports, the Board disaggregates satisfaction rating information by year of graduation and by employment status. For purposes of this example, this report includes only one year's information on total respondents.

Satisfaction with Undergraduate Experience
Present Attitude Toward University
(percentage of 1994 graduate respondents)



Satisfaction with Undergraduate Experience
Present Attitude Toward Bachelor's Degree Major
(percentage of 1994 graduate respondents)



❑ *Efficiency Indicators*

Costs per Credit Hour. One measure of an educational system's efficiency is its cost per credit hour (cost per unit of output). As the table below indicates, Illinois' higher education system tracks these costs at four different levels. The 'Lower Division' represents freshmen and sophomores. The 'Upper Division' is juniors and seniors. The 'Graduate I' level represents those with a bachelor's degree working on master's degree, while 'Graduate II' are those with a master's degree and working on a higher degree.

Instructional Costs Per Credit Hour
(by Student Level at Public Universities)

	Lower Division	Upper Division	Graduate I	Graduate II
Fiscal 1996	$140.24	$213.09	$372.83	$546.32
Fiscal 1995	$134.38	$201.75	$360.04	$515.70

In every instance, unit costs increased from 1995 to 1996, with growth ranging from 3.6% in the lowest case (Graduate I) to 5.9% in the highest (Graduate II). The data also suggest that unit costs increase with higher levels of academic preparation. Costs per credit hour are also available for each university as well as for each academic discipline. For example, 1996 credit hour costs range from a low of $77.35 at the Lower Division in psychology to a high of $7,424.03 per credit hour at the Graduate II level in legal studies and law.

❑ *Explanatory Information*

1. In 1961 the General Assembly established the Illinois Board of Higher Education (IBHE) to plan and coordinate Illinois' system of colleges and universities. In 1967 the legislature established a 'system of systems' under the IBHE with coordinating authority provided by the Board of Regents for three specific universities and the Board of Governors for another five universities. In 1995, the legislature abolished the latter two coordinating boards in favor of individual boards of trustees for each public university and re-structured the Board of Higher Education.

2. The Board of Higher Education requires a statement of mission, focus, and priorities for each public college and university in the state. Proposals for new programs, reviews of existing programs, and recommendations for elimination of programs are analyzed and conducted on the basis of these statements.

3. Throughout 1995 and 1996 the planning and policy development activities of IBHE centered on a cluster of themes that identified issues of concern and targeted resources broadly aimed at enhancing access to college, upgrading the skills of the Illinois workforce, strengthening the academic

performance of underrepresented groups, advancing technological innovation on campus, and promoting accountability for tax dollars spent. While not included in the above report, these are examples of areas where SEA indicators might be appropriate for assessing the performance of the governing educational agency.

4. In 1991 IBHE launched the Priorities, Quality, and Productivity or 'P-Q-P' initiative. This is the vehicle the Board uses to engage higher education institutions in the task of setting priorities to achieve the dual goals of enhancing the quality of their programs while assuring taxpayers and public officials that each dollar of higher education spending was spent productively. Some examples of performance measures are included in the following chart:

FY 1996 P-Q-P Spending in Public Universities (Dollars in Thousands)

Undergraduate Education	$ 6,766
Academic Support	3,769
Salary Competitiveness	9,832
Library Support	812
Technology	4,791
Equipment	2,470
Building Maintenance	730
Other	5,392

Select P-Q-P Performance Indicators (Since Inception)

Universities	
Programs eliminated	115
Programs reduced or consolidated	130
Total savings generated/reinvested (millions)	$ 119.0
Community Colleges	
Programs eliminated, reduced, re-structured	260
Total savings generated/reinvested (millions)	$ 122.7
Fiscal Year 1996 Reinvestments	
Total FY 1996 reinvestments (millions)	$ 88.5
By public universities	$ 34.6
By community colleges	$ 53.9

Healthy Moms/Healthy Kids Program (Medicaid)

At $8.2 billion in Fiscal Year 1997, Health and Social Services is the biggest single category of the nearly $17 billion in general fund expenditures in the State of Illinois, and Medicaid is the largest single component in that category. Over the last ten years, changes in the State's general funds GAAP balance have been driven largely by the ability (or inability) to cover Medicaid liabilities as they are incurred. Improvements in the GAAP deficit in recent years can be traced directly to the reductions in the amount of Medicaid payables that are carried over from year to year under Section 25 of the State Finance Act.

This improvement has been the result of a combination of additional resources and several programmatic efforts designed to bring the costs of the program under control. One of those efforts is the Healthy Moms/ Healthy Kids program. The program is based on the recognition that simple untreated illnesses can develop into more expensive chronic conditions and that an unwillingness among providers to treat Medicaid enrolled individuals due to the State's past payment practices can turn what should have been a visit to a doctor or clinic into a much more expensive emergency room visit. In particular, the Department of Public Aid reported that "downstate women receiving case management through Healthy Moms/Healthy Kids were considered a high risk group (all low-income, 57% single and 29% teenage)". With the State moving ahead with a managed care program for persons receiving Medicaid (MediPlan Plus), a review of the service efforts and accomplishments of the Healthy Moms/Healthy Kids Program may be quite timely.

❑ *Goals and Strategies*

The State initiated the Healthy Moms/Healthy Kids (HM/HK) program to improve the health of women and children. This was to be accomplished in part by specific efforts to: reduce infant mortality; expand access to primary care and preventive services; improve the health care delivery system for Medicaid-enrolled pregnant women and children; improve participation in preventive services and health outcomes of pregnant women and children; control escalating Medicaid costs; and ensure that federal Medicaid mandates (Early and Periodic Screening, Diagnostic, and Treatment—EPSDT—Program) are met. The program is based on a two-part strategy—1) using financial incentives to encourage provider participation and ensure adequate provider capacity, and 2) using community-based agencies to assist individual families in accessing health care and related services through a system of case management. (The information in this review comes from the most recent report to the Governor and the General Assembly on the Healthy Moms/Healthy Kids Program—FY 1995.)

❑ *Inputs*

The Healthy Moms/Healthy Kids Program was implemented in two main elements—a managed care program in Chicago and enhanced rates and case management services downstate (but no managed care program). Case management providers serving clients in the managed care area were paid $12.7 million during FY 1995.

Participation Statistics for the Chicago Area, FY 1995

	Children \a		Pregnant Women \b		Total
In HM/HK	209,890	52.4%	18,902	66.6%	228,792
Not in HM/HK	190,836	47.6%	9,491	33.4%	200,327
	400,726		28,393		429,119

\a--unduplicated number of Medicaid-enrolled children residing in Chicago at some point in time during FY 1995 (ages birth-20)

\b--unduplicated number of known Medicaid-enrolled pregnant women in Chicago

Primary Care Providers Participating in HM/HK Managed Care Program (Chicago)

Provider Type	FY 1994	FY 1995
Physician	1,300	1,586
Hospital-based Clinics	36	37
FQHC	45	34
Encounter Rate Clinic	6	4
Hospital Satellite Clinics	16	16
HMO Sites (4 HMOs)	137	184
Total	1,540	1,861 \c

\c--number of providers maintaining delivery privileges in FY 1995: 638

While not giving comparable numbers of total persons eligible for HM/HK downstate, the program was reportedly providing case management services to 90,719 Medicaid families in June 1995 (20,287 pregnant women; 23,998 infants; and 46,434 children over age 1). Also, "as of June 1995, there were 1,596 providers (including 865 providers having delivery privileges) who signed HM/HK Provider Agreements downstate and out-of-state". Case management providers serving downstate families were paid $19.3 million during FY 1995.

❑ *Outputs*

As noted above, one key to improving health care for children and pregnant women is to ensure that there is sufficient capacity to handle the demand for health care. Since HM/HK was started, an additional 382 physicians enrolled in Medicaid to serve pregnant women and children. As the figures below indicate for Chicago, the HM/HK Program was extremely successful in lining up substantially more doctors and clinics than would have been needed even if all of the eligible persons had enrolled in the program.

In addition to lining up more providers, increased access to health care can occur if existing providers are willing to offer more services. For providers in Chicago who were participating in Medicaid prior to HM/HK, services increased as shown below:

-prenatal services per physician by 5%;
-post-partum services per physician by 6%; and
-child health services per physician by 8%.

Enrollments of Children and Pregnant Women by Provider Type in Chicago, FY 1995

HM/HK Enrollments by Provider	Children		Pregnant Women	
Physician	55,074	26%	4,004	21%
FQHC	22,968	11%	8,208	44%
Encounter Rate Clinic	4,458	2%	2,315	12%
Hospital Clinic	19,041	9%	3,585	19%
HMO	108,349	52%	790	4%
	209,890		18,902	

Needed and Pledged Capacity for HM/HK in Chicago, 1995

Client Type	Needed Capacity \d	Pledged Capacity
Pregnant Women	28,393	273,256
Children	400,726	831,715
	429,119	1,104,971

\d--total Medicaid-enrolled children and pregnant women, not just those enrolled in HM/HK

Immunizations and lead screenings can also contribute to improved health. Since the implementation of HM/HK, there have been substantial increases in both areas. The number of doses of vaccines provided to Medicaid-enrolled children through age 2 increased six-fold between 1992 and 1995 (221,929 ver-

sus 1,363,370). In fact, more doses of vaccine were provided in 1995 alone than in the three previous years combined (1,340,414 from 1992 through 1994). Also, "[T]he number of lead screenings for children was more than 4.5 times higher in 1995 (129,344) than in 1992 (28,682)."

❑ *Outcomes*

The Healthy Moms/Healthy Kids Program set forth six objectives designed to help improve the health of women and children:

- Improve the health care delivery system for Medicaid-enrolled pregnant women and children;
- Expand access to primary care and preventive services;
- Reduce infant mortality;
- Improve participation in preventive services and health outcomes of pregnant women and children;
- Control escalating Medicaid costs;
- Ensure that federal Medicaid mandates (EPSDT) are met.

The program reports significant progress in the area of improved birth outcomes. "Illinois infant mortality rate is the lowest in the state's history: 9.0 deaths per 1,000 live births. That represents a 16% decline since 1991."

In the Chicago area, when compared to newborns residing in the same area whose mothers did not participate:

- 35% fewer HM/HK neonates died or were transferred to a higher level of care hospital;
- the incidence of HM/HK babies being diagnosed "extreme immaturity or respiratory distress syndrome" was 20% lower;
- the average length of hospital stay was 17% lower for HM/HK newborns;
- babies born to HM/HK-enrolled pregnant women were more likely to be healthy (62.2% compared to 59%).

For women receiving case management downstate in FY 1994:

- had significantly better birth outcomes than the general population, even though they were a higher risk group;
- were 30% less likely to give birth to a premature, very low birth weight (VLBW) baby than the non-HM/HK population;
- teens were 77% less likely to give birth to a premature baby as compared to teens not enrolled in HM/HK;
- single pregnant women not in HM/HK were more than twice as likely to have a premature infant as compared to HM/HK-enrolled women.

The program also reported success in improving access to and participation in health care services:

- women who were enrolled in HM/HK managed care (Chicago) at the end of their pregnancies received more prenatal care, on average, than those on Medicaid in 1992 and 1993 who were not in HM/HK, and were less likely to have no prenatal care;
- downstate, about two-thirds of the women who participated in HM/HK during pregnancy began prenatal care in the first trimester of pregnancy and nearly three-fourths were in compliance with the recommended prenatal care visits.

In addition to improving access to primary care providers, the program also resulted in many referrals to specialists in the Chicago managed care program. In FY 1995, these referrals included 1,090 infants (under age 1) and 8,999 children (age 1-20). The number of pregnant

women referred to specialists was 4,174. (These figures understate the total number of referrals because they exclude the number of referrals to specialists by HMOs, as that data was not available to the Department of Public Aid.)

When measured by the participation rate in the EPSDT program, there has been a clear increase in child health services. Between Federal Fiscal Years (FFY)1992 and 1995, the participation rate for all children (birth to age 20) nearly tripled, rising to 75.2% from an estimated 26.3%.

- Before HM/HK (FFY 1990), Illinois' EPSDT participation rate was estimated at 26.3%. In FFY 1992, 41.3% of Medicaid enrolled children (birth -20) received EPSDT services.
- In FFY 1993, 45.9% of Medicaid-enrolled children received EPSDT services (80.8% under age 1). In states with Medicaid populations over 1 million, Illinois' EPSDT participation ratio was the highest.
- In FFY 1994, Illinois had the highest EPSDT participation ratio as compared to all other FFY reporting periods. With a total population of 1,027,707 children (birth-20) enrolled in Medicaid, the overall participation rate was 72.3%.
- Also in FFY 1994, IDPA exceeded the FFY 1995 Health Care Financing Administration (HCFA)-established 80% participation goal in the under age 1 (86.1%) and the 15-20 age groups. The state is on target with meeting the HCFA participation goals in the 6-14 age group and demonstrated improvement in the participation ratio for the age 1-5 group.

As noted earlier, there has been a dramatic increase in the number of doses of vaccine provided for Medicaid enrolled children, and that increase is reflected in the following observations.

- The proportion of 2-year olds who were fully immunized by public health clinics downstate increased 25% since 1992. While several programs can be credited for the increase, downstate immunization rates have improved with the implementation of HM/HK.
- The rates of timely immunizations among 2- and 4-month olds were higher for children enrolled in the managed care program as compared to Medicaid children residing in the same area in previous years, before HM/HK.

❑ *Efficiencies*

"Department data show that HM/HK reduced hospital costs for newborn births in Fiscal Year (FY) 1994. There was a 31 percent cost savings to the Department for births to HM/HK managed care enrolled pregnant women as compared to those that were not HM/HK enrolled. If all Medicaid pregnant women in Chicago were in HM/HK, it is estimated that Illinois would have saved approximately $30 million in reduced hospital costs."

State Employment and Training Programs (A Common Set of Indicators Exercise)

One of the frustrations of the average taxpayer is understanding the maze of government programs designed to achieve some general purpose or end. It is not uncommon to find an array of programs, serving the same or similar clients, stipulating different eligibility requirements, underwritten by diverse funding sources, and operated by multiple government agencies. This situation almost guarantees that there will also be as many different ways of assessing service efforts and accomplishments (SEA). Government-funded employment and training programs are a paramount example.

The primary purpose of reporting service efforts and accomplishments is to help those interested in determining what government accomplished and at what cost. One way to think about SEA is to consider its impact at the broader, functional level (e.g., state-funded employment and training programs). Historically, this has not been possible, given the situation described above.

Several years ago, a group of Illinois agencies engaged in employment and training programs undertook a pilot initiative to address this situation. Since they were all involved in 'employment and training,' their challenge was to determine whether they could agree on a common set of indicators of service efforts and accomplishments for the employment and training enterprise of state government. Instead of the myriad of diverse indicators dictated by their various legislative mandates and funding sources, these agencies are working to establish a common set of indicators on which each agency can report. SEA measures of individual programs are necessary for a variety of reasons and will continue to be collected and reported. But if successful, the Illinois Common Performance Management System (ICPMS) of these participating agencies and programs would provide a picture of the efforts and accomplishments of all employment and training programs taken together, rather than measures of individual programs. Such an achievement would itself be unique among states.

By way of background, there are 9 agencies or programs participating in this demonstration project. They include the Prairie State 2000 Authority; Illinois State Board of Education (adult and vocational education); Job Training Partnership Act; Illinois Departments of Employment Security, Human Services, and Corrections; Illinois Community College Board; and the Taylor Institute. 'Employment and training programs' refers to those programs involving post-secondary training or re-training of the existing workforce. It does not include elementary or secondary education.

It should be noted that this is an experimental, demonstration project which is currently under development. The project is only now receiving its first data reports, which must at this stage be considered highly preliminary. Because representatives of agencies participating in the demonstration project are only getting their first look at the report outputs, it would be a mistake to draw any conclusions from such tentative, trial data.

❑ *Inputs*

The ideal SEA reporting model begins with the resources put into the program. At a minimum these include program funding. Because the initial emphasis of this demonstration project has been on output and outcome indicators, resource and cost information has not yet been integrated into the data collected and reported and is not available for this report.

❑ *Outputs*

The primary outputs reported by ICPMS are the number of participants and the number of pro-

gram completers. The definitions used by the system are the respective definitions used by each individual agency or program. The number of program participants and completers is available for each individual agency or program, but the purpose of this report is to speak to the employment and training function at the aggregate level. The system generates figures for both 'total participants' and an 'unduplicated count of participants,' because some participants are enrolled in more than one program (e.g., a Job Service client enrolled in a community college vocational education program).

ICPMS Participant Data		
	FY 1994	FY 1995
Total Participants	1,116,298	1,123,608
Unduplicated Participants	995,402	1,005,466
Program Completers	371,385	N/A

In addition to total numbers, ICPMS also generates disaggregations on participants and completers by race/ethnicity, sex, age, and geographic area of the state.

❑ *Outcomes*

ICPMS has emphasized the definition and collection of data on program outcomes. This has been both the core focus and the major challenge of the project. Unlike the terms 'program participants' and 'completers,' which retain each individual agency's definition, the purpose of the project is to achieve consensus on not only appropriate program outcomes, but their definitions as well. The project has demonstrated a remarkable degree of progress and success toward this end, as evidenced by the following major outcome indicators:

ICPMS Welfare Reduction Measures

- **Welfare Reduction Rate** - Percent of participants who were active AFDC clients during the first quarter of fiscal year 1994 who experienced a reduction in their welfare grant due to employment.

- **Substantial Welfare Reduction Rate** - Percent of participants who were active AFDC clients during the first quarter of fiscal year 1994 who experienced a substantial (more than $1,000) reduction in their welfare grant due to employment.

- **AFDC Cancellation Rate** - Percent of participants who were active AFDC clients during the first quarter of fiscal year 1994 who experienced a cancellation of their AFDC benefits due to employment.

- **AFDC Termination Rate** - Percent of participants who were active AFDC clients during the first quarter of fiscal year 1994 who experienced a cancellation of their AFDC benefits due to employment, with no return to AFDC during the observation period.

- **Recidivism Rate** - Percent of AFDC cancellations that occurred during the observation period where there was a return to AFDC.

- **Average Cost Avoidance/Reinvestments per Participant** - Average AFDC cost avoidance/reinvestments (actual and projected) per participant who received AFDC sometime during fiscal year 1994.

- **Cost Avoidance/Reinvestment** - Aggregate AFDC cost avoidance/reinvestments (actual and projected) for all participants who received AFDC sometime during fiscal year 1994.

ICPMS Welfare Reduction Measures FY94 and FY95 CPMS/AFDC Program Participants		
Measures	Two-Year Observation Period (FY94 - FY95)	Two-Year Observation Period (FY95 - FY96)
Welfare Reduction Rate	36.4%	45.2%
Substantial Welfare Reduction Rate	12.2%	17.5%
AFDC Cancellation Rate	13.5%	15.0%
AFDC Termination Rate	8.4%	12.3%
Recidivism Rate	37.6%	19.7%
Average Cost Avoidance/Reinvestments per Participant	$663	$917
Cost Avoidance/Reinvestment	$150,084,003	$211,879,004
First Quarter Participants	186,846	196,059
Total Participants	226,288	231,145

Source: Center for Governmental Studies, Northern Illinois University

ICPMS Employment and Earnings Measures

- **Placement/Employment Rate** - Number of all program completers who, in the first or second full quarter after leaving the program, had reported earnings under the Unemployment Insurance (UI) system that met the minimum earning criteria as the percent of all program completers.

- **Short-Term Retention Rate** - Number of all program completers who, in the fourth or fifth full quarter after leaving the program, had reported earnings under the Unemployment Insurance (UI) system that met the minimum earning criteria as the percent of all program completers who, in the first or second full quarter after leaving the program, met the minimum earning criteria.

- **Long-Term Retention Rate** - Number of all program completers who, in the eighth or ninth full quarter after leaving the program, had reported earnings under the Unemployment Insurance (UI) system that met the minimum earning criteria as the percent of all program completers who, in the first or second full quarter after leaving the program, met the minimum earning criteria.

- **For Completers Employed in 1st or 2nd Post Quarter**

  Average Earnings 4th Quarter - Sum of the wages earned during the fourth full post-program quarter by individuals who are identified as employed in the placement/employment measure divided by the total number of those individuals.

ICPMS Employment and Earnings Measures

Comparison of FY93 and FY94 Program Completers

Measures	FY 93	FY 94
Placement/Employment Rate	49.1%	54.1%
Short-Term Retention Rate	79.2%	82.6%
Long-Term Retention Rate	78.1%	76.4%
Completers Employed in 1st or 2nd Post Quarter		
Average Earnings 4th Quarter	$3,320	$3,523
Average Earnings 8th Quarter +	$3,522	$3,520
Completers Meeting Minimum Earnings Criteria in Quarter#		
Average Earnings 4th Quarter	$4,009	$4,269
Average Earnings 8th Quarter +	$3,319	$4,547
Total Completers	409,686	371,385
Completers with CPMS Placement/Employment	201,203	200,747
Completers Employed in 4th Post-Program Quarter	182,386	179,112
Completers Employed in 8th Post-Program Quarter	9,180	179,665

Source: Center for Governmental Studies, Northern Illinois University

\# Minimum earnings requirement is $1,105 (13 weeks at 20 hours per week at hourly minimum wage of $4.25).

\+ Figures based on those completers who had a full eight quarters of post-program data.

Average Earnings 8th Quarter - Sum of the wages earned during the eighth full post-program quarter by individuals who are identified as employed in the placement/employment measure divided by the total number of those individuals.

- **For Completers Meeting Minimum Earnings Criteria in the Quarter**

  Average Earnings 4th Quarter - Sum of the wages earned during the fourth full post-program quarter by program completers who had reported earnings under the Unemployment Insurance (UI) system that met the minimum earning criteria during that quarter divided by the number of those individuals.

  Average Earnings 8th Quarter - Sum of the wages earned during the eighth full post-program quarter by program completers who had reported earnings under the Unemployment Insurance (UI) system that met the minimum earning criteria during that quarter divided by the number of those individuals.

ICPMS Additional Employment and Earnings Measures

- **Any Placement/Employment** - Number of all program completers who, in the first or second full quarter after leaving the program, had reported earnings under the Unemployment Insurance (UI) system as the percent of all program completers.

- **Short-Term Retention (Any)** - Number of all program completers who, in the fourth or fifth full quarter after leaving the program, had reported earnings under the Unemployment Insurance (UI) system as the percent of all program completers who, in the first or second full quarter after leaving the program, have reported earnings.

- **Long-Term Retention (Any)** - Number of all program completers who, in the eighth or ninth full quarter after leaving the program, had reported earnings under the Unemployment Insurance (UI) system as the percent of all program completers who, in the first or second full quarter after leaving the program, have reported earnings.

- **Any Employment 1st Post Year** - Number of program completers who had reported earnings under the Unemployment Insurance (UI) system during the first four full post-program quarters as the percent of all program completers.

- **Any Employment 1st or 2nd Post Year** - Number of program completers who had reported earnings under the Unemployment Insurance (UI) system during the first eight full post-program quarters as the percent of all program completers.

- **First Post Year**

  Average Quarters Worked - Average number of quarters worked by program completers who had reported earnings under the Unemployment Insurance (UI) system during the first four full post-program quarters as the percent of all program completers.

  Continuous Work - Number of program completers who had reported earnings under the Unemployment Insurance (UI) system in each of the first four full post-program quarters as the percent of all program completers.

  Aggregate Earnings - Sum of the earnings reported under the Unemployment Insurance (UI) system for program completers during the first four full post-program quarters.

  Average Earnings per Completer - Sum of the earnings reported under the Unemployment Insurance (UI) system for program completers during the first four full post-program quarters divided by the total number of program completers.

  Average Earnings per Quarter Worked Sum of the earnings reported under the Unemployment Insurance (UI) system for program completers during the first four full post-program quarters divided by the number of quarters for which wages were earned.

- **First and Second Post Year**

  Average Quarters Worked - Average number of quarters worked by program completers who had reported earnings under the Unemployment Insurance (UI) system during the first eight full post-program quarters as the percent of all program completers.

  Continuous Work - Number of program completers who had reported earnings under the Unemployment Insurance (UI) system in each of the first eight full post-program quarters as the percent of all program completers.

ICPMS Additional Employment and Earnings Measures FY94 Program Completers	
Measures	**Results**
Any Placement/Employment	68.5%
Short-Term Retention (Any)	85.2%
Long-Term Retention (Any)	79.2%
Any Employment 1st Post Year	75.5%
Any Employment 1st or 2nd Post Year	81.6%
First Post Year	
Average Quarters Worked	2.4
Continuous Work	45.2%
Aggregate Earnings	$2,973,593,015
Average Earnings per Completer	$8,007
Average Earnings per Quarter Worked	$2,922
First and Second Post Year	
Average Quarters Worked	4.82
Continuous Work	35.4%
Sum of Earnings	$6,250,079,090
Average Earnings per Completer	$16,829
Average Earnings per Quarter Worked	$3,123
Any Continuing Education	16.6%
Earnings Above Poverty Level	38.2%
Total Completers	371,385
Completers with Any Placement/Employment	280,391

Source: Center for Governmental Studies, Northern Illinois University

Sum of Earnings - Sum of the earnings reported under the Unemployment Insurance (UI) system for program completers during the first eight full post-program quarters.

Average Earnings per Completer - Sum of the earnings reported under the Unemployment Insurance (UI) system for program completers during the first eight full post-program quarters divided by the number of individuals earning those wages.

- **Average Earnings per Quarter Worked** - Sum of the earnings reported under the Unemployment Insurance (UI) system for program completers during the first eight full post-program quarters divided by the number of quarters for which wages were earned.

- **Any Continuing Education** - Number of program completers who are continuing their education during the academic year following their program completion as the percent of all program completers.

- **Earnings Above Poverty Level** - Number of program completers who had reported earnings under the Unemployment Insurance (UI) system during the first four full post program quarters that was greater than or equal to $7,710 (1994 poverty level for individuals under age 65 with no dependents).

❑ *Efficiency/Cost Effectiveness*

An important measure of service efforts and accomplishments is the efficiency or cost effectiveness of the program. These measures seek to relate program costs with program outputs or outcomes. In the employment and training function, there are any number of potential measures. What is the average cost per program participant? How much did it cost to train participants placed in employment? How long will it take the state to recover its investment through taxes paid by participants placed in employment? What is the state's return-on-investment? These are examples of efficiency or cost-effectiveness measures. As noted above, because cost information is not available at this time in this demonstration project, efficiency or cost-effectiveness measures are not available in this report.

❑ *Explanatory Information*

1. In reviewing both the performance indicators and the data measuring those indicators, it cannot be overly stressed that ICPMS is a demonstration project. While the data is based on real participants, this is a system in its developmental stages.

2. It is extremely important to understand the nature of these indicators and data. In the absence of both a careful reading of the indicator definitions and comprehension of the methodology for generating the data, the risk of misinterpreting the data increases. One example in this report is the 'cost avoidance/reinvestment' indicator. In simpler terms this may be interpreted as welfare cost savings. Because of the possibility of misinterpretation, however, the system's designers deliberately have avoided the use of that terminology. First, as the definition notes, the determination of this measure employs both actual and projected calculations. Second, the data is a measure of what welfare costs could have accrued in the absence of the programs' intervention. There is no representation either that these costs would have been incurred or that they represent budget surpluses in the welfare system.

■ Elementary and Secondary Education

Numerous factors play a role in the ultimate goal of enabling children to achieve to their fullest potential within the public education setting in Illinois. A review of many of these factors, be they inputs such as monetary and human resources, outputs such as dropout and attendance rates or outcomes such as test scores, may provide insight into the efficiencies and accomplishments of the public education delivery system.

❑ *Inputs*

The supply of basic resources infused into the delivery system for public education includes funding, student enrollment, school districts and the number of schools within districts, and human resources such as administrators and teachers.

Certainly the most basic of resources is funding which totaled $13.189 billion from all sources for the school year 1996-97, an increase of $2.773 billion or 26.6% over school year 1992-93. On average, school funding has increased by $693 million or 6.7% over each of the last four fiscal years.

Elementary and Secondary Education Revenues ($ in Billions)

	School Year				
	1992-93	1993-94	1994-95	1995-96	1996-97
State	$3.475	$3.612	$3.793	$3.995	$4.305
Local	$6.078	$6.453	$6.841	$7.340	$7.731
Federal	$0.863	$0.901	$1.080	$1.123	$1.153
Total	$10.416	$10.966	$11.714	$12.458	$13.189

This level of funding supports an education system inhabited by 1,974,388 students in the 1996-97 school year, an increase of 96,903 or 5.2% since the 1992-93 school year. Guidance for the nearly two million public school students in Illinois is provided by 7,209 administrators and 115,644 teachers throughout the 903 school districts containing 3,836 schools.

Public School Enrollment

School Year				
1992-93	1993-94	1994-95	1995-96	1996-97
1,877,785	1,898,494	1,920,289	1,948,089	1,974,388

Public School Administrators

School Year				
1992-93	1993-94	1994-95	1995-96	1996-97
6,854	6,777	6,924	7,089	7,209

Public School Teachers

School Year				
1992-93	1993-94	1994-95	1995-96	1996-97
106,970	106,461	108,557	111,279	115,644

Number of Public Schools

School Year				
1992-93	1993-94	1994-95	1995-96	1996-97
3,875	3,874	3,825	3,821	3,836

Number of Public School Districts

School Year				
1992-93	1993-94	1994-95	1995-96	1996-97
929	922	913	905	903

❑ *Outputs*

Examples of outputs of the elementary and secondary education system include dropout rates, student attendance rates, number and rate of chronic truancy, and graduation rates. While the dropout rate, chronic truancy rate and number of chronic truants have increased slightly over the last five school years, so have attendance and graduation rates.

Dropout Rate

School Year				
1992-93	1993-94	1994-95	1995-96	1996-97
6.2%	7.0%	6.8%	6.5%	6.4%

Attendance Rate

School Year				
1992-93	1993-94	1994-95	1995-96	1996-97
93.4%	93.2%	93.4%	93.5%	93.8%

Chronic Truancy Rate

School Year				
1992-93	1993-94	1994-95	1995-96	1996-97
2.2%	2.4%	2.4%	2.3%	2.3%

Number of Chronic Truants

School Year				
1992-93	1993-94	1994-95	1995-96	1996-97
38,599	42,314	43,666	42,974	42,546

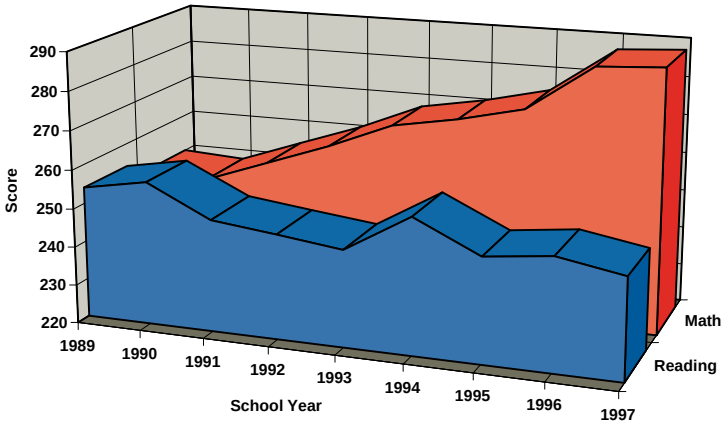
Graduation Rate

School Year				
1992-93	1993-94	1994-95	1995-96	1996-97
81.4%	78.0%	80.7%	80.5%	81.6%

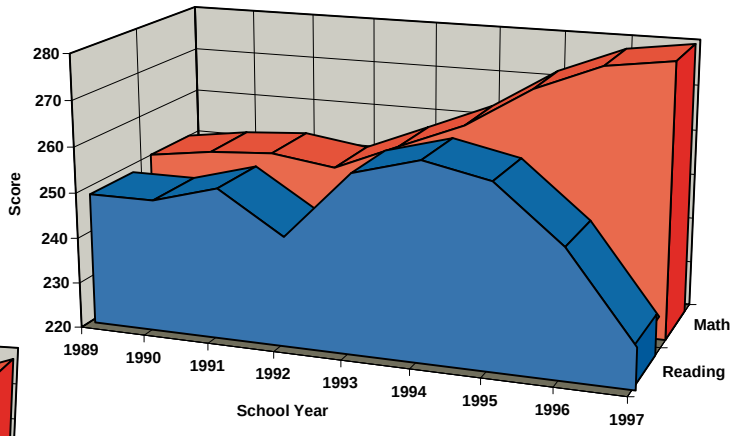
❑ *Outcomes*

Despite the substantial amount of resources dedicated to public education, few indicators as to the impact of this investment exist. Two examples of outcomes, IGAP and ACT test scores, are charted below. IGAP is the scoring system used by the Illinois Goal Assessment Program for assessing student performance in the academic areas of reading, writing, mathematics, science, and social science. ACT test scores are the product of the American College Testing Program. IGAP data reveal that while the performance of Illinois public education students in mathematics is on the rise, reading performance is not keeping pace. At the same time, state mean scores on ACT tests by Illinois students reflect substantial increases between 1989 and 1991 before leveling off.

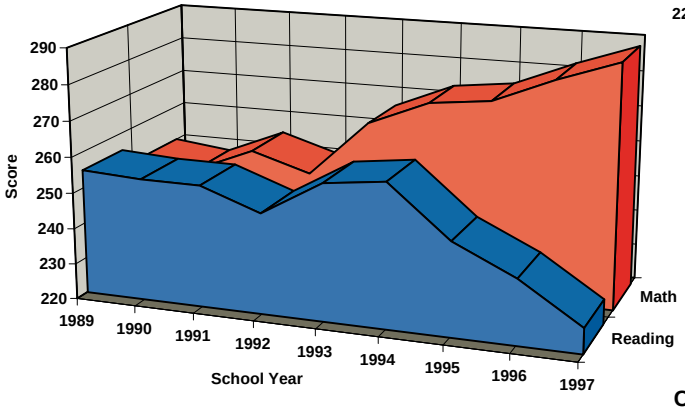
State Mean IGAP Scores for Third Grade



State Mean IGAP Scores for Sixth Grade



State Mean IGAP Scores for Eighth Grade



Composite ACT Mean Scores for Illinois Students